The Lesotho Revenue Authority (LRA) is an operationally autonomous body that was established by the Lesotho Revenue Authority Act No. 14 of 2001 to be the:

"Main body responsible for the assessment and collection, on behalf of the Government, of specified revenue; for the administration and enforcement of laws relating to such revenue and for related matters".

lra.org.ls

LESOTHO REVENUE AUTHORITY INTEGRATED REPORT 2018 – 2019

Integrated Report
2018 – 2019

As the Lesotho Revenue Authority, we have been mandated to assess, and collect revenue for the Government of Lesotho, operating under the general supervision of the Minister of Finance.

LRA AT A GLANCE

M6.9 billion
Total revenue collected
(FY2018/19)
(M5.9 billion - 2017/18)

43%
Tax revenue contribution to the national budget
(FY2018/19)
(38 % – 2017/18)

16%
Year-on-year growth

M1 billion
more than 2017/18 collection

13
Ports of entry and exit

630
Employees

3
Service Centres

6
Offices

OUR GUIDING POLICY

Building a service culture through collaborative leadership

OUR VISION

To be a leader in service delivery in Lesotho and beyond, putting the interests of people at the heart of everything that we do

OUR MISSION

To contribute to the economic development of Lesotho through:

- an environment that encourages our Clients to voluntarily comply;
- collaborative leadership;
- capable, service-oriented and motivated staff; and
- continuous improvement in everything that we do.

OUR VALUES

- We are responsive
- We care
- Service first
- Shared ownership

CONTENTS

LRA footprint

01 Maseru	
Maseru Bridge Border Post	Port of Entry & Exit
Maseru Railway Station	Port of Entry & Exit
Moshoeshoe 1 International Airport	Port of Entry & Exit
Maseru Post Office	Service centres
Maseru Service Centre	Service centres
Finance House	LRA offices
MGC Park	LRA offices
Oblate House	LRA offices
Maseru Mall	LRA offices
Training Centre	LRA offices
State Warehouse	LRA offices
02 Leribe	
Maputsoe Bridge Border Post	Port of Entry & Exit
Leribe Service Centre	Service centres
Peka Bridge	Port of Entry & Exit

03 Butha-Buthe	
Caledonspoort Border Post	Port of Entry & Exit
04 Mokhotlong	
Sani Pass	Port of Entry & Exit
05 Qacha's Nek	
Qacha's Nek Gate	Port of Entry & Exit
Ramatseliso Gate	Port of Entry & Exit
06 Quthing	
Tele Bridge	Port of Entry & Exit
07 Mohale's Hoek	
Makhaleng Bridge	Port of Entry & Exit
Mohale's Hoek Service Centre	Service centres
08 Mafeteng	
Van Rooyen's Gate	Port of Entry & Exit

ABOUT OUR REPORT

This report represents a first step on the journey of the Lesotho Revenue Authority (LRA or the Authority) towards integrated reporting. In it, we endeavour to present a full, coherent, consistent and transparent description of the ways in which we create value for our Clients and deliver on our legislated mandate for our shareholder, the Ministry of Finance, and reflect the material interests of all our stakeholders.

Reporting boundary

This report covers the financial year 2018/19 which runs from 1 April 2018 to 31 March 2019. It focuses on the material matters relating to our strategy, business model, operating context, performance, governance, and the material risks and opportunities arising from them, that we have identified in line with best practice, and which we outline on pages 10 to 42. It is an explanation of how we create value in the short, medium and long term, which we define as one year, two to three years, and five years respectively.

Reporting frameworks

The report was prepared with regard to the aspirations and ideals set out in the principles of the King IV Code on Corporate Governance (King IV) and is also guided by the principles and requirements of the International Integrated Reporting Council (IIRC) <IR> framework. Our Annual Financial Statements on pages 44 to 68 were prepared in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Lesotho Revenue Authority Act No. 14 of 2001 (the Act), where appropriate. We also endeavour to describe our approach, activities and mandate in terms of our five sources of capital:

- Spiritual Capital
- Social Capital
- Human Capital
- Innovation Capital
- Financial Capital

(For more on our capitals, see page 4.)

Materiality

We consider an issue to be material if it has the potential to have a substantial impact on our ability to continue to fulfil our mandate, and our relationships with our stakeholders. Our material issues are informed by the expectations and concerns of our stakeholders, as well as the legislative, economic, social and environmental context in which we operate.

(For more on the context in which we operate, see page 6.)

Forward-looking statements

This report contains certain forward-looking statements, particularly with regard to the potential of the implementation over time of our *Rea Aha* strategy, the approach to the Authority mandate through investing in our five sources of capital, the effect of global and domestic economic conditions on the Authority's strategy, performance and operations.

(For more on our strategy, see page 10.)

These statements thus involve both known and as yet unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from the future results.

The Authority undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. The forward-looking statements have not been reviewed or reported on by the auditors.

Directors' statement of responsibility

The Board of Directors (the Board), supported by the Finance and Audit Committee, acknowledges its responsibility for overseeing and ensuring the integrity of this integrated report. Executive management, assisted by the reporting team, was responsible for the preparation of this report. The Board has applied its collective mind to the report's presentation and preparation, and believes it fairly represents the matters that have a material effect on our ability to create value and deliver on our legislated mandate. The Board accordingly approved this integrated report on 27 June 2019.

WHO WE ARE

The LRA is a corporate body established under the Lesotho Revenue Authority Act No. 14 of 2001. As stated in the Act, our mandate is "…to be the main body responsible for the assessment and collection, on behalf of the Government, of specified revenue; for the administration and enforcement of laws relating to such revenue and for related matters".

We do this within the frameworks of three other laws:
- The Customs and Excise Act (1982) as amended
- The Income Tax Act (1993) as amended
- The Value Added Tax Act (2001) as amended

The tax mix for which we are administratively responsible comprises:

- Income tax (IT), which comprises:
  - Corporate Income Tax (CIT)
  - Personal Income Tax (PIT)
  - Withholding Tax
  - Fringe Benefit Tax
  - Gambling Levy
- Value Added Tax (VAT)

Of these, VAT and PIT are the largest contributors to tax revenues.

In addition to the tax revenues, we also collect non-tax revenue in the form of toll fees on behalf of the Road Fund.

(For more on toll fees, see page 19.)

Our five sources of capital

Capital	Objective
SpC Spiritual Capital	• Embody a servant culture throughout the organisation • Create a sense of worthy purpose
SC Social Capital	• Build internal trust • Build brand recognition and brand respect by external stakeholders
HC Human Capital	• Increase staff competencies • Increase staff motivation
IC Innovation Capital	• Create a continuous improvement culture • Enhance service delivery
FC Financial Capital	• Build financial sustainability • Establish a culture of voluntary compliance

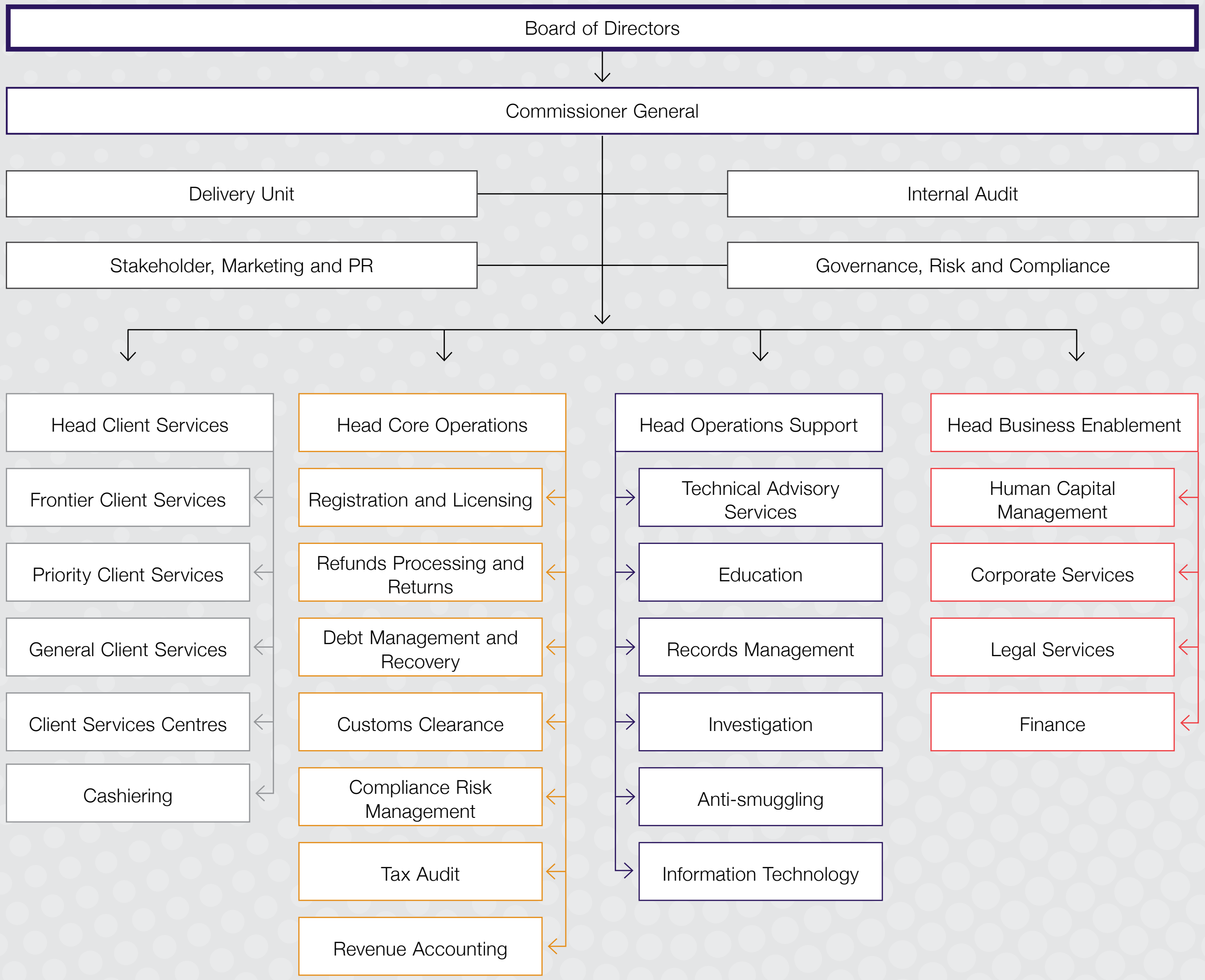
(For more on our strategy, see pages 10 to 19.)

Our operating structure

Implementation of our Rea Aha strategy necessitated alignment of the structure to the strategy for optimal effectiveness, client and staff satisfaction, and the elevation of our spiritual, social and human capitals. To this end, we have pared down the previous nine operating divisions to four.

The new structure was premised on the analogy of a football team, with strikers at the front, a midfield supporting them, a defence line behind, and a tactical bench to provide skills and specialised intervention. These four divisions place all our staff who interact with Clients at any level within Client Services. Behind them are those who work in Core Operations offering all the back-office functions, who are in turn supported by Operations Support providing the specialised services that underpin and maximise our efficiencies, with Business Enablement facilitating the smooth and integrated operation of the organisation.

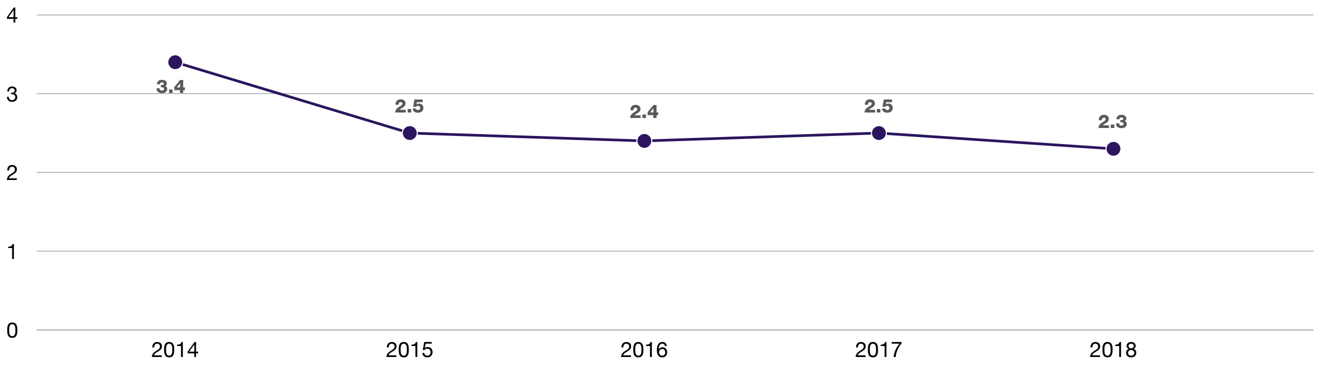
The other four functions – the Delivery Unit; Internal Audit; Governance, Risk and Compliance; and Stakeholder, Marketing and Public Relations fall within the direct ambit of the office of the Commissioner General.



Our operating environment

For the year under review, the Authority operated under a declining economic environment wherein GDP growth dropped from 2.5% in 2017/18 to 2.3% in 2018/19. This decline is attributed to a slowdown in the mining, construction, banking, transport and telecommunications sectors. The fiscal position also weakened, recording a deficit of 5.2% in 2018/19 from 4.8% in 2017/18.

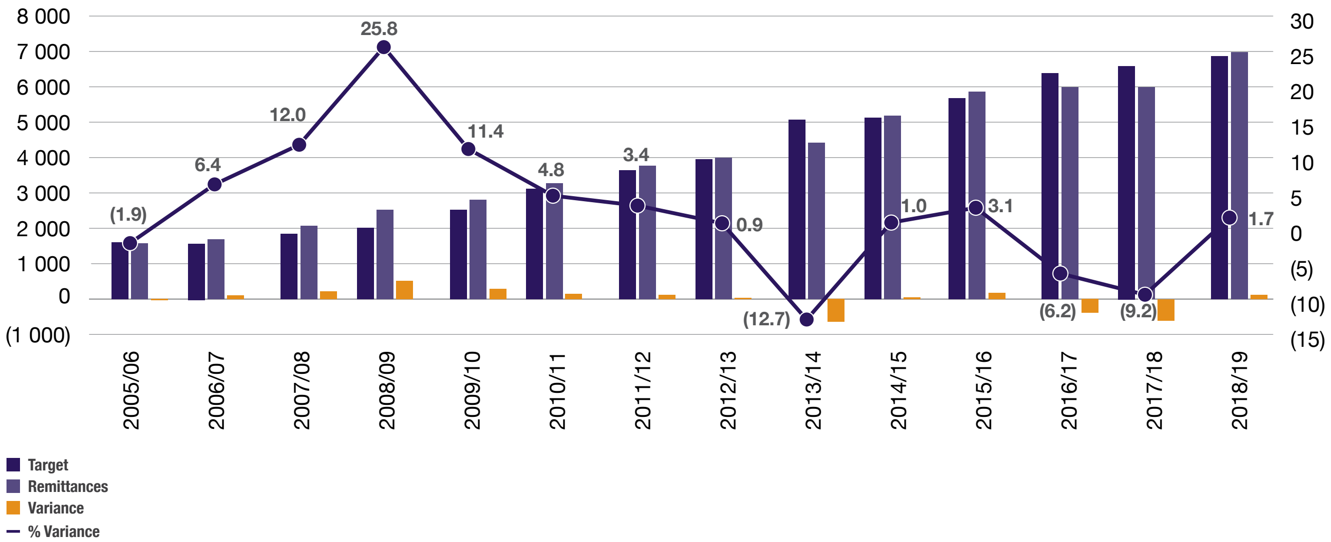
LESOTHO GDP GROWTH
%



The Lesotho tax environment

Historically, revenue performance grew at an increasing rate, reaching a peak in 2008/09. Following this period, it declined, hitting the lowest point in 2013/14 when the target was missed by 12.7%. Although there was a slight improvement in 2015/16, the target was missed again in 2016/17 and 2017/18. This trend effectively ended with the good results achieved in 2018/19 when the Authority exceeded the target by M113 million, which is 1.7%.

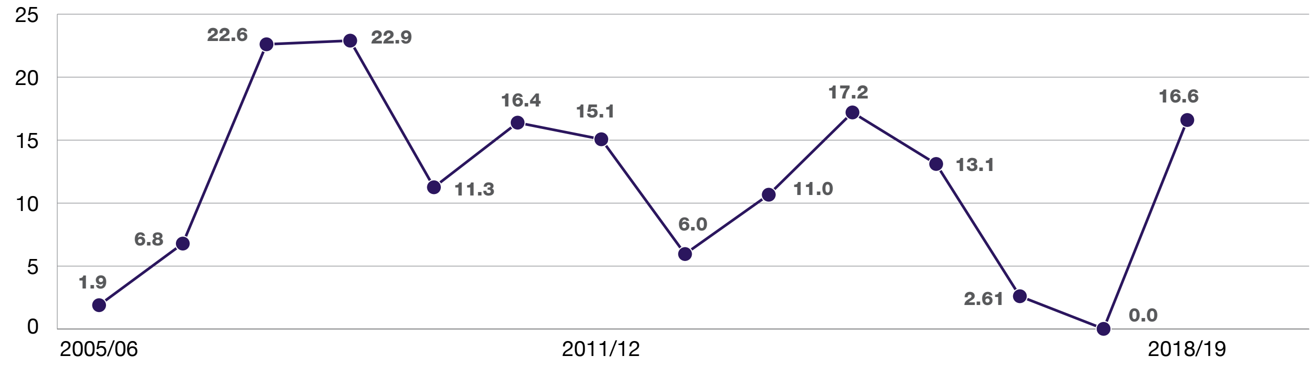
Revenue performance
Million Maloti



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Target	1 610	1 585	1 846	2 011	2 527	3 126	3 647	3 961	5 066	5 132	5 686	6 381	6 597	6 869
Remittances	1 580	1 687	2 069	2 530	2 815	3 276	3 770	3 995	4 421	5 182	5 861	5 988	5 989	6 983
Variance	(30.15)	102.20	222.25	518.86	287.50	150.68	123.25	33.71	(644.82)	48.89	175.71	(392.82)	(607.55)	114.68

Revenue growth on the other hand has been very volatile.

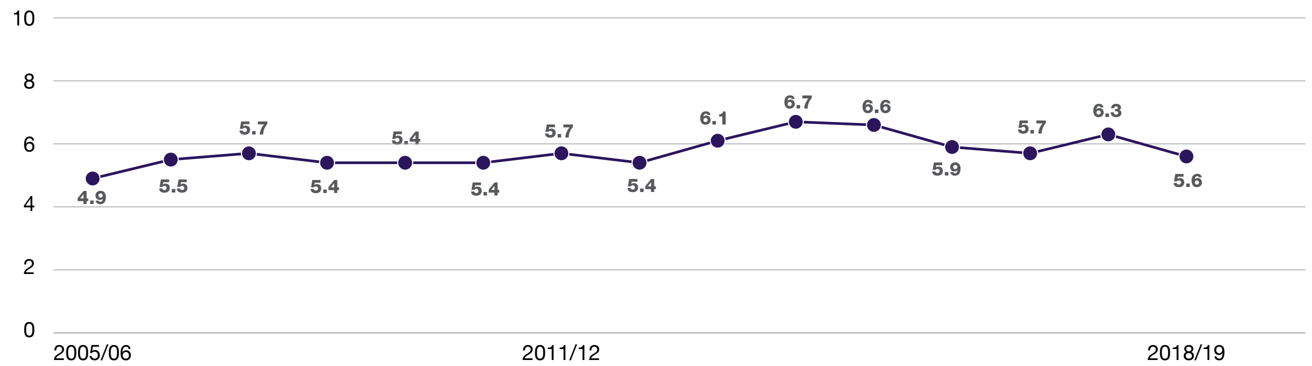
REVENUE GROWTH
%



Cost of collection

Lesotho's cost of collection, which measures the efficiency of collecting revenue, is high compared to the international benchmark of one percent.

COST OF COLLECTION
%



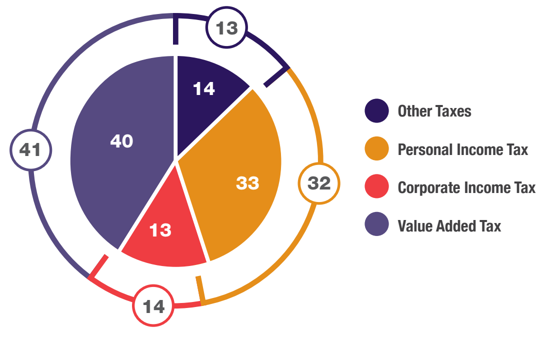
Sources of tax revenue

The Lesotho tax mix comprises Income Tax (IT) and Value Added Tax (VAT). IT comprises Corporate Income Tax (CIT), Personal Income Tax (PIT) and Other Taxes (OT).

VAT and PIT are the largest contributors to tax revenue.

(For more on revenue, contributions and performance, see pages 16 and 17 .)

TAX REVENUE SOURCE
% CONTRIBUTIONS



Inner circle" 2017/18
Outer circle: 2018/19

CHAIRMAN'S REPORT

The financial year that we record in this report is one that has seen the LRA undertake and implement some fundamental changes to its strategy, structure and methodologies, and I am pleased to be able to note that these changes have brought about some significant successes.

MR. ROBERT LIKHANG
CHAIRMAN OF THE BOARD

Perhaps the most important change during the year under review has been the introduction of the project to restructure the organisation, and to align it with the *Rea Aha* strategy. The initiative included the return of the Commissioner General to the organisation, as the person deemed ideally fitted to a role requiring the development of solutions, innovation, and a grasp of the importance of the fourth industrial revolution – all of which the LRA is going to have to adapt to and adopt in the short to medium term.

An important aspect of the transformation process has been the integrating of the activities and operations of the organisation in terms of our five capitals, so that the previously existing independently operating silos no longer hold sway.

This restructuring has thus been an important milestone for the LRA, as is the move towards the digitalisation of the organisation, which included the Board's looking into issues of information and communication technology (ICT) governance. We undertook this not only as a requirement of good corporate governance, but also in order to enable us to realise our strategic goals.

(For more on restructuring, ICT and governance leadership, see pages 11, 29 and 34 respectively.)

Another important focus for the Board during the year, has been the reviewing of our risk framework, and adjusting it so that it provides a control for the strategy.

The Board also changed the way in which the organisation's reporting is conducted, and we are building a framework to monitor, in terms of our five capitals, the success of projects that we have in place. While previously management would deliver reports as and when it felt it was necessary, we now track key projects at every meeting in order to gauge their performance and assess the risks associated with them. We have also ensured that the reports contain a far greater graphic element, so that their information is readily discernible and clear. This process has been elevated to Board level because of the large costs related to our major projects, a number of which are fundamental to the success of the LRA.

(For more on our projects, see page 20.)

All these changes during the year under review have provided the foundation for many successes in transforming the organisation into one which is more agile, approachable and effective in fulfilling its mandate.

Board committees
The Board places great reliance on its committees, which examine all important issues in advance of their being discussed by the Board. It is gratifying to see that all three of our Board committees have continued to fulfil their roles with great responsibility, and have continued to fully acquaint themselves with the issues over which they have oversight.

(For more on our Board committees, see page 38.)

Charter reviews
During the year under review, I also reviewed the Board charter in order to ensure that the Board was sufficiently capacitated at a strategic level, that it has access to sufficient strategic information to enable it to take decisions without being drawn into operational matters, and that it can identify areas in which management might not be functioning optimally. There are also charters for individual directors, and in addition, each division of the LRA has its own charter in the process of development. This is part of our thrust in developing a value chain that will prevent any operational gaps developing in the organisation.

Outlook
While I am gratified by the progress we have made in transforming the LRA during the year under review, there is still much that needs to be accomplished. Restructuring will need to be extended to our financial capital, so that the financial information provided can be fully integrated with non-financial information and thereby enable appropriate decision-making to take place.

External to the LRA there still remains a number of challenges. As an agent of government in terms of revenue collection, we also see ourselves as government's partner in a wider context, and would like to be able to have an input into the way legislation is framed.

- The tax environment
  In this regard, we look forward to seeing legislation adapting to the fast changes in the tax environment and the rapid digitalisation of the world in which we operate. There is also a need, to harmonise our tax system with the country's strategic development plan. This includes, among its important elements, the tourism industry and the related hospitality sector, as well as mining, which sees benefits for foreign interests. Agriculture, whose seasonality is not yet fully recognised from a tax point of view, requires attention, as does manufacturing, where we believe that issues such as VAT payment frameworks need to be updated to enable businesses to use VAT funds as working capital financing.

- Small and medium enterprises (SMEs)
  SMEs are vital to the growth of any economy, and more especially a developing one such as Lesotho's, and it is important that the law is structured in such a way as to support this sector. The LRA has of course already taken significant steps in this direction with the introduction of the simplified business taxation system.

(For more on LRA tax collection amelioration initiatives, see page 18.)

- The business community and the economy
  While our relationship with the business community is improving, we would like to see it further formalised. A representative of the Chamber of Commerce sits on our Board and, in an important development, we have already, during the year under review, signed a memorandum of understanding with Lesotho Institute of Accountants, whose members are involved with facilitating the tax returns and payments of our Clients.

The challenges of slack growth in the economy remain and, in the absence of any development financing institutions such as exist in other SADC countries, the cost of establishing and doing business remains high. It will become necessary for us to work with both government and the private sector so that our efforts can be maximised to the benefit of the country's economy as a whole.

Acknowledgement
In the development of our *Rea Aha* strategy, we have met with representatives of all facets of our local communities, and I would like to thank them for that, as we would not have been able to achieve what we have strategically, without their input and assistance.

I would also like to thank the Government of Lesotho, who in accepting policies that we have implemented, have enabled us to transform the LRA and capacitate it to achieve the successes we have seen during the year under review. It is also appropriate for me to thank the South African Revenue Service (SARS), who have supported us, have heard our concerns, and have recognised the importance of good communication between themselves and the LRA.

As an organisation committed to improving lives in Lesotho, we have collaborated over the years with the Basotho Enterprise Development Corporation (BEDCO), and I would like to thank that organisation for its ongoing work with us in this regard.

I would like to express my great appreciation to our staff, who have shown great willingness and adaptability as we have embarked on our process of transforming the LRA. Without their efforts and commitment, we would not have been able to achieve what we have.

My gratitude goes to management and the LRA EXCO, under the able leadership of Commissioner General Mr. Thabo Khasipe, for their unstinting work in bringing about the strategic realignment that has enabled our success. They have greatly contributed to laying the foundation for continued capacitation in the LRA for delivery on its mandate.

Finally – to my colleagues on the LRA Board, I would like to thank you all for the support, commitment and skills that you have brought to bear in helping to guide the LRA on its journey of transformation and success.

Mr. Robert Likhang
Chairman of the Board

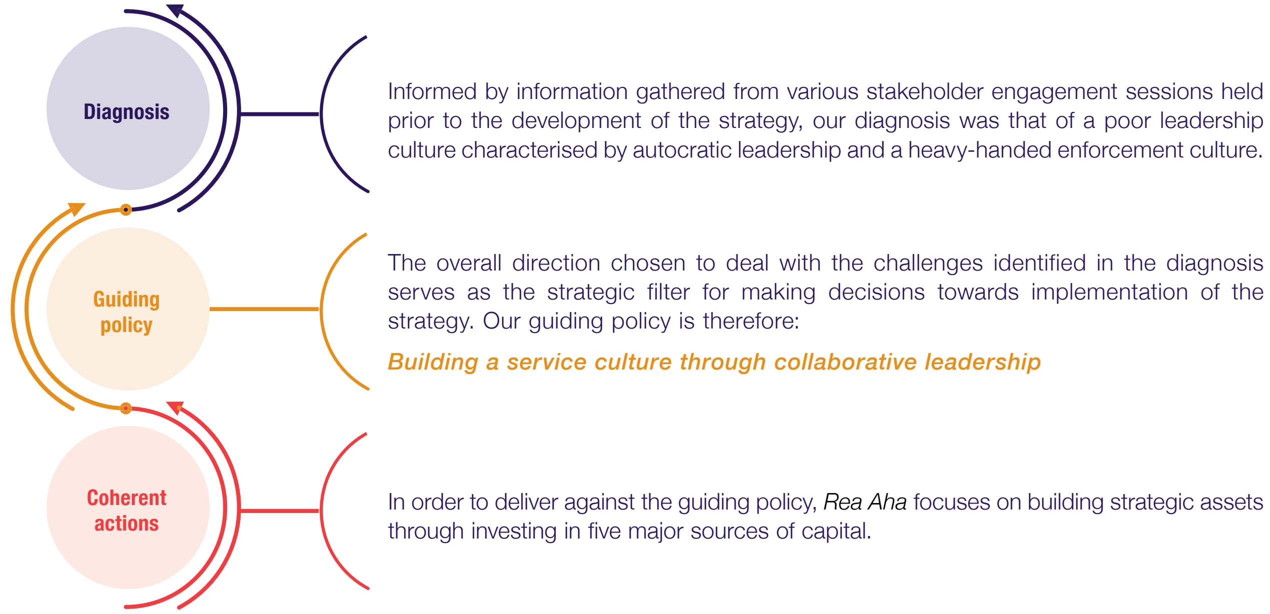
COMMISSIONER GENERAL'S REVIEW

The year under review marks the first year of our five-year Rea Aha strategy, a year in which our main focus was on planning. Our good results in exceeding our revenue target indicate the fact that the direction we embarked on in implementing our strategy has been vindicated.

MR. THABO DAVID KHASIPE
COMMISSIONER GENERAL

Our strategy – *Rea Aha*

The development of our Rea Aha strategy was guided by a methodology premised on the understanding that there is a strategic kernel, composed of a diagnosis, a guiding policy and a set of coherent actions. This process was augmented by the adoption of a Value Creation Capital (VCC) which will enable us to strike a balance approach of investing in our human, spiritual, social, innovation and financial capitals, towards the fulfilling of our mandate.



Transforming the LRA

Internal climate and client satisfaction surveys

We understand that we face ongoing challenges in aligning the way we operate both with our strategic goals and in terms of our spiritual, social and human capitals. We therefore conducted an Internal Climate Survey and a Client Satisfaction Survey in order to quantify and further refine our efforts and build on our successes in transforming our operations.

Restructuring

In restructuring the organisation, and while all five of our capitals are critical to our effective functioning, we understood that the biggest challenge we faced was in the area of our human, spiritual and social capitals. Partly as a consequence of prior reorganisation initiatives, and partly as a result of what had become an outmoded and ineffective operational philosophy, trust within the organisation, as well as trust and perceptions by our Clients, had broken down over time.

During the year under review, we began determinedly to put in place the structures, policies, and platforms that would allow the effective implementation of our strategic objectives. This initiative, named structure alignment to strategy, was designed to enable us to ultimately deliver on our mandate to our shareholder, the Ministry of Finance, and to create the value envisioned by that mandate.

- Shared values
  In pursuit of our strategy, we adopted a set of values that seek to focus on building trust internally and externally. At the heart of our strategy is our people whom we care for. It is our belief that, if we care for our people, they will be engendered to serve our Clients timeously with good attitude and solve their problems positively.

  Through collaborative leadership, we are aiming at promoting a sense of shared ownership, where everyone benefits from the business of LRA.

- Staff competence and motivation
  To build confidence, management committed the LRA to an evolutionary staff-driven process that was fair, objective and aimed at making the organisation more efficient. Most of the year was spent on a human resources-led process of developing guidelines, with the staff union being an essential stakeholder. The guidelines were finalised in engagements with the executive management team, who then took it to the Board, where it was approved.

  Because of the inclusivity of the process, the resulting plan is supported by staff, and the outcome has been a commitment on every side to abide by the agreed framework, with a sense of shared ownership.

- Building trust
  It was clear from the onset that we needed to cut costs, and as part of strengthening our financial capital, the trade-off was going to have to be a reduction in our headcount. Nonetheless, we never lost sight of our resolve to keep the process humane, and within the scope of our spiritual capital.

  Thus, in the first phase of its implementation, it was decided that people who were five years from retirement would be offered voluntary separation packages, which included one year's medical care as a component. Ten people accepted the offer, which went some way to reducing our costs in the medium to long term as an employer. The principle of voluntary separation will be extended to others in the organisation who, if they decide not to avail themselves of the voluntary separation package, will still be able to put themselves forward to compete for jobs in other areas of the Authority.

- Internal communications
  A previously existing staff union-management collaboration was revived, in which the issues could be debated with the staff concerns at the heart of the deliberations. The original management negotiating team was to include a legal representative. However, given the unhealthy atmosphere that was the legacy of this prior process, the makeup of the team was changed, and all participants accepted the good-faith basis of the discussions, which were more productive.

The management team joined me in visiting all the organisation's offices and border posts. All staff understood that the intention was to listen to their concerns, and once the synergies were identified, the basis was established for rolling out a response.

- External communications
  On the reciprocal side of the trust issue was the organisation's image in the eyes of the public. For many years the policy of the LRA had been to impose the legal side of its mandate. This had resulted in an aggressive short-term-focused policy of enforcement, with the organisation in many cases not hesitating to close down a business, or prosecute non-compliant individuals or companies, regardless of the reasons for non-compliance.

The pursuit of this policy was counter-productive on two levels. On the one hand it raised the cost of collection, as it invariably involved investigation, time on the ground, litigation and, in the end, the closure of a source of future tax revenue. On the other hand, it helped propagate a culture of fear among those who were still known as taxpayers.

An extensive campaign was therefore undertaken to change this image, and the negative collections philosophy that lay behind it. Radio, TV, print and outdoor media were utilised to convey a new human approach that included many conciliatory and incentivising elements to encourage people to be forthcoming honest and non-evasive in their relationship with the LRA and their legal obligation to pay tax.

As a signifier of our good intentions and as proof that we were changing our orientation in line with our spiritual and social capitals to become a service organisation rather than one primarily engaged in enforcement, we changed our mode of address, and approached those from whom we collect taxes as 'Clients'. This new approach stemmed from our conviction that people will do the right thing if only they are offered the right platform and conditions to do so.

SpC — 01 **SPIRITUAL CAPITAL**
Create a commitment to shared values and a dedication to a worthy purpose towards achieving a positive energy throughout the organisation

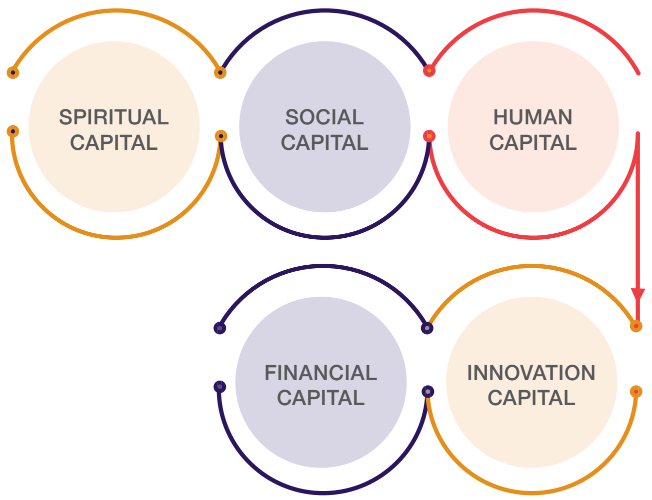
SC — 02 **SOCIAL CAPITAL**
Build trust within the organisation as a critical success factor towards delivering service to our Clients, ensuring that the brand is recognised and respected

HC — 03 **HUMAN CAPITAL**
Invest in the competencies and motivation of our staff as a key asset towards improving service delivery

IC — 04 **INNOVATION CAPITAL**
Create a culture of continuous service improvement and improve service delivery through innovative solutions

FC — 05 **FINANCIAL CAPITAL**
Drive revenue performance by encouraging voluntary compliance and ensuring that we are financially sustainable

Our strategy is to "Build a service culture through collaborative leadership" by investing in our five sources of capital



Which will in turn be used as sustainable source of strategic advantage in achieving our DESIRED OUTCOMES

1. Improved revenue performance
2. Improved quality of service
3. Reduced cost of collection
4. Improved voluntary compliance culture

Customs inspector getting ready to inspect goods using a mobile scanner at Maseru Bridge.

Our value-creating business model

The LRA creates value through its restructured organisational framework, which comprises the Commissioner General's (CG's) office and four divisions. Together, they provide the inputs which are transformed by our integrated activities that enable us to deliver on our mandate through the outcomes of our five capitals.

INPUTS – our capitals

SPIRITUAL CAPITAL (SpC)
Embodying a servant culture throughout the organisation
Creating a sense of worthy purpose:
- **449** staff attended counselling sessions

SOCIAL CAPITAL (SC)
Building internal trust
Building brand recognition and brand respect by external stakeholders:
- Rated A3 (high level of corporate reputation) with Company Reputation Index of 4%

HUMAN CAPITAL (HC)
Increasing staff motivation:
- Subsidised staff attended Inter-revenue Games in Botswana

Increasing staff competencies:
- M5 million spent on training
- 45% female representation

INNOVATION CAPITAL (IC)
Creating a continuous improvement culture
Enhancing delivery channels
Three additional service channels:
- Call centre
- Instant chat
- Online tax clearance certificate

FINANCIAL CAPITAL (FC)
Building financial sustainability
Establishing a culture of voluntary compliance
- Revenue collection: M6.9 million
- Cost of collection: 1loti: 5.6 lisente

ACTIVITIES

Through strategic planning, supported by risk management and strong governance, the LRA promotes knowledge, skills, expertise, reputation and targeted financial goals to implement projects successfully by integrating the activities of our five divisions

CG's office – Stakeholder, Marketing and Public Relations; Delivery Unit; Internal Audit; and Governance, Risk and Compliance

Client Services – Frontier Client Services; Priority Client Services; Aggregator services; General Client Services; Inland service centres and Cashiering

Core Operations – Registration and Licensing; Refunds Process and Returns; Debt Management; Customs Clearance; Tax Audit; Compliance Risk Management and Intelligence

Operations Support – Education; Investigations; Information Technology; Technical Advisory Services; Records Management; and Anti-smuggling

Business Enablement – Legal Services; Finance; Human Capital Management and Corporate Services

To deliver our coherent actions as OUTPUTS

- Revised performance management system
- Queue management system and client feedback introduced
- Integrated Client-facing processes to provide seamless service
- 500 Clients attended the LRA Lekhetho Khotla (Tax Expo)
- Reduced turnaround time for refund process
- Improved accessibility of services for Clients by introducing online and TCC payment referencing tool

In terms of our 4 STRATEGIC OUTCOMES

- Improved revenue performance
- Improved quality of service
- Reduced cost of collection
- Improved voluntary compliance culture

Creating VALUE for our Stakeholders

Shareholder –
Ministry of Finance
- Improved revenue performance

M6.9 billion in revenue collected
- Reduced cost of collection 1 loti:5.6 lisente

Clients
- Improved quality of service

Client satisfaction rating of excellence is between 75%-80%
- Improved compliance culture through introduction of VDP a voluntary disclosure programme

Employees
- Skills advancement: Achieved 73% implementation of the training plan
- Improved workplace environment
- Improved morale and motivation Salary review

M5 million spent on training
- 55% female representation

Making trade-offs

In an environment where resources are scarce, as in the case of the Authority, choosing a course of action when it is likely that a different course would have resulted in a greater capital increment is necessary. The trade-offs the Authority has made are:

Human capital

Under the structure alignment to strategy project, we adopted the evolutionary approach rather than big-bang approach. By choosing the evolutionary approach, employees who are 55 years old and above were encouraged to voluntarily opt out under voluntary early retirement with a separation package. Though we lost experienced employees and a sizeable amount of financial resources, we have introduced a Youth Development Programme which exacerbated the financial resource loss, but in the long term we will have a pool of skilled, young and productive employees, which is a gain in human capital. In addition to this, the evolutionary process has yielded gain for the Authority in social capital (building internal trust) and spiritual capital (sense of worthy purpose).

Revenue collection

As the Authority, we have made a conscious decision to be service-centric in our approach towards revenue collection. This approach, vis-a-vis a direct revenue collection and enforcement heavy approach, requires investing in promoting a voluntary disclosure programme. Through this we extend our hand to our clients to regularise their tax affairs. This measure presents a compromise for the LRA in terms of the additional taxes lost and creates a voluntary, compliant culture.

Our performance

Rea Aha strategy

During the year under review, in establishing our performance against strategy and the extent to which we are creating value for our stakeholders, we achieved the following under our four strategic outcomes:

Strategic Outcome 1: Improved revenue collection

Our revenue collection for the year under review exceeded target and expectation, highlighted by:

Tax revenue collected
M6 983.95 billion against a target of **M6 869.91 billion**

Year-on-year growth
M114 million, or **16%, M1 billion more than the previous year collection**

Supported mainly by Income Tax, which grew by **M466 million** or **19%**

Our revenue collection was strongest in the fourth quarter performance in Q4.

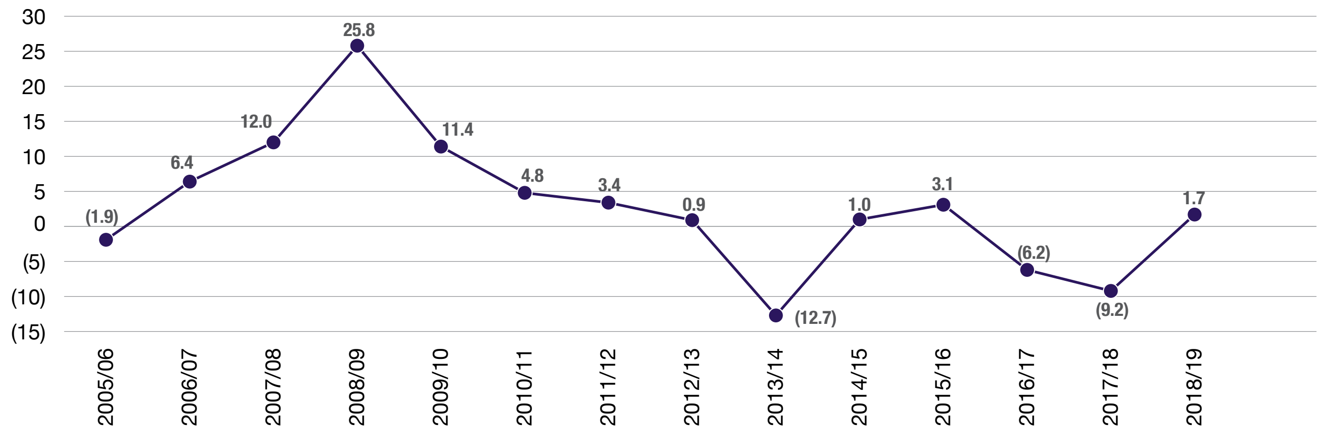
Revenue Collections – FY2019 Quarterly Performance

Income Tax	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
Remittances	961.97	921.51	1 088.54	1 131.62	4 103.70
Target	1 004.08	1 024.81	973.32	102.40	4 022.61
Variance	(42.29)	(103.30)	115.22	111.22	81.09
% Variance	(4.21)	(10.08)	11.84	10.90	2.00
VAT					
Remittances	739.60	679.52	702.07	759.06	2 880.25
Target	691.56	698.58	733.82	723.33	2 847.30
Variance	48.04	(19.06)	(31.75)	35.73	32.95
% Variance	6.95	(2.73)	(4.33)	4.94	1.20

Revenue collections – year-on-year target comparatives

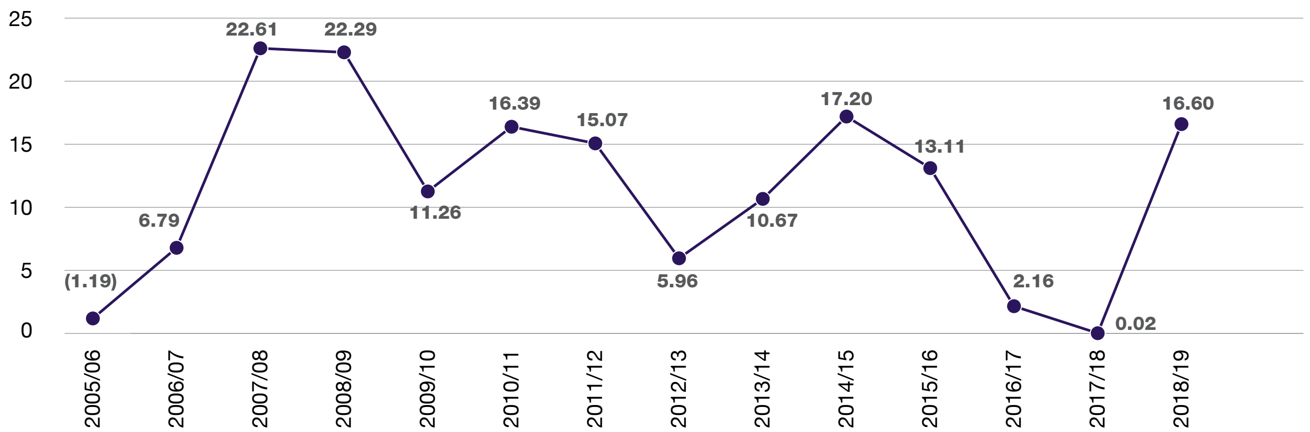
VARIANCE: TARGET VIS-A-VIS COLLECTIONS

%



GROWTH RATE

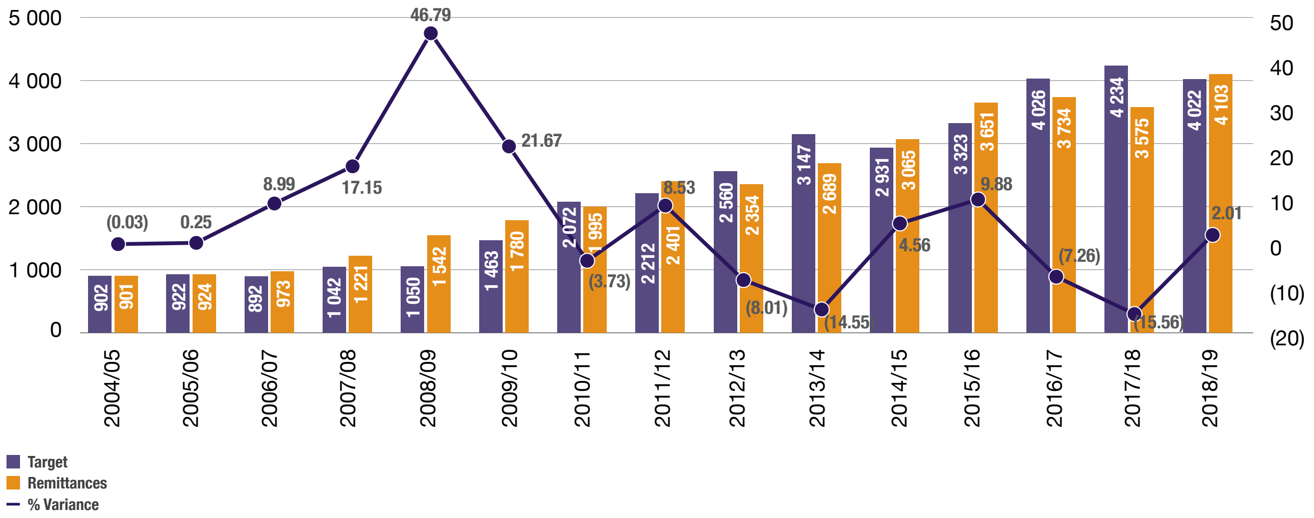
%



Income tax collections – year-on-year comparatives

The year under review showed an improvement in CIT, with the mining and quarrying industry registering an approximate 123% increase in payments, and PIT recording a year-on-year growth of 4% (FY2017/18: 2.3%).

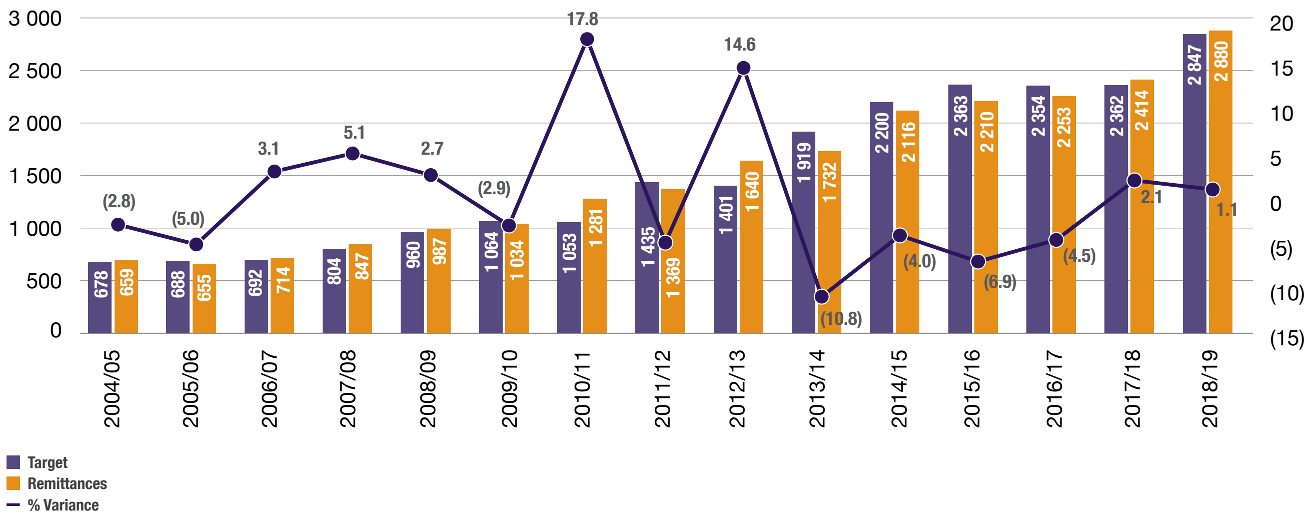
YEAR-ON-YEAR IT COLLECTION
Million Maloti



VAT collections – year-on-year comparatives

The year under review showed a M275 million increase in payments from the wholesale and retail trade industry. While the import VAT growth rate significantly declined from 28% in 2015/16 to 0% in 2018/19, it recovered in the year under review to 2%.

YEAR-ON-YEAR VAT COLLECTION
Million Maloti



The realised revenue performance resulted in improved efficiency, which is measured as tax revenue to GDP, from 18% in 2017/18 to 20% in 2018/19.

Strategic Outcome 2: Improved quality of service

- **Service culture and delivery**

During the year under review, in alignment with our strategic outcome, we began a process of instituting the service culture required to drive performance and build trust. In this we followed the methodology of the four disciplines of execution (4DX). It was necessary to completely change the prior culture of enforcement and penalisation that dominated the activities of the LRA, to one of client-centricity and service, where the aim is to foster good relationships in an atmosphere of accessibility and goodwill. To this end, we rolled out a queue-management system with ushers providing advice, and which enables Clients to be served quickly, efficiently and with minimum disruption caused by inadequate documentation. The emphasis was changed to become one in which the Client's convenience is prioritised, as opposed to that of the organisation.

A social media campaign was also run for staff which offered a laptop as a prize for promoting LRA initiatives on social media within friend groups. This encouraged the support of the staff in changing attitudes and approach,and inculcating the primacy of our social capital.

Strategic Outcome 3: Reduced cost of collection

Cost of collection ratio measures the efficiency of the Authority in collecting tax revenue. During the year under review, the Authority made efforts to reduce the cost of collection ratio to 1loti:5.6 lisente. This implies that it costs the Authority 5.6 lisente to collect 1 loti which is considered high against the international benchmark of 1loti:1sente.

Strategic Outcome 4: Improved voluntary compliance culture

During the year under review, two conciliatory measures were introduced as a means of easing the tax burden and addressing fears associated with historical non-compliance. These were the voluntary disclosure programme (VDP) and simplified business taxation (SBT).

- **VDP**

In order to allay fears, and to approach our Clients on the basis of partnership, the LRA offered those people who had been engaged in one tax transgression or another (such as concealing income or transfer pricing) the option of making a full disclosure. Under the terms of this arrangement, the benefit for the Client is that the LRA forgives the transgression, and forgoes all penalties and interest, with an agreement on a payment plan for the principal liability. While the initiative was launched at the end of the previous financial year, it too was promoted during the year under review with an extensive public communications campaign.

The benefit for the LRA is that revenues that had previously not been collectable, or collectable only at an increased cost, were now accessible, with the promise of ongoing future compliance, and therefore a continued revenue source.

- **SBT**

This initiative, introduced in the year under review, targets small businesses primarily in the formal sector, such as taxi operators and the owners of small shops, around 80% of which are owned by members of the oriental community.

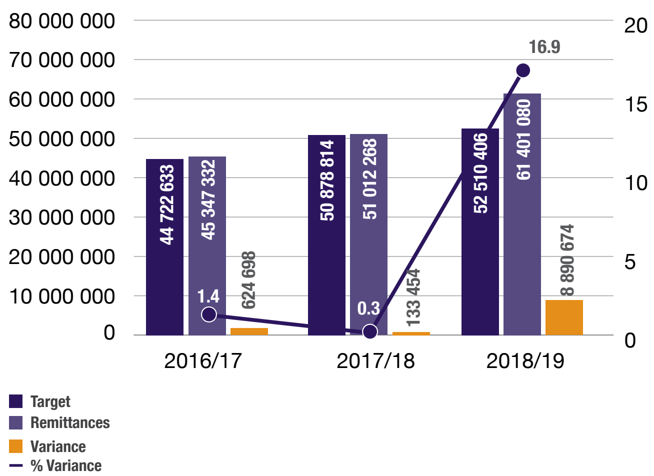
As part of our commitment to enhancing our social capital, the LRA acknowledged that many of this community did not share the cultural background of regularised bookkeeping and tax compliance. As with those people who were historically non-compliant the costs of trying to track down and enforce and, if necessary, litigate against these small business people was not productive. The simplified business taxation programme therefore offered a once-off lump-sum payment for the year, determined by the size of the business, without any complicated paperwork, bookkeeping or accounting costs to the Client.

The LRA was aided in this initiative by the Chinese Embassy in communicating the advantages of the programme to its expatriate community in Lesotho.

Non-tax revenue

Our toll fee collection also exceeded the target.

TOLL FEES COLLECTION – YEAR-ON-YEAR COMPARITIVES
Million Maloti



Project management

During the year under review we continued with the implementation of several projects to align our operations and activities with our *Rea Aha* strategy. The aim was to maximise our delivery on our mandate, while at the same time enabling and realising our transformation in terms of our spiritual, human and social capitals.

The Lesotho Tax Modernisation Project – 2018-2022

Strengthen institutional capacity

Behavioural Insights
ISO 9001 2015 standard
business intelligence
data warehouse
gender strategy

Small client and informal sector tax regime

Hair and beauty salons
street vendors

e-Taxation

e-Filing
e-Registration
e-Payments

VAT non-compliance

VAT non-compliance detection solutions

Customs Modernisation Programme Phase 2 – 2018-2022

Upgrade ASYCUDA

Enhancements
Preferred trader
Private shoppers

IT infrastructure

IT hardware
ASYCUDA redundancy

Electronic single window

SACU connect
SARS connect
OBFC
Government agencies

Enhance trade and tariff administration

Coordinated border management
Tariff management
Accredited economic operators

Project management framework

Our project management framework follows a customised Project Management Book of Knowledge (PMBOK) methodology.

Project	LRA funding	Government funding	Donor funding	Total funding	Budget expenditure
Structure alignment to strategy	M930 122	0	0	M930 122	M465 722
Tax modernisation	M32 225 168	M32 760 052	M101 549 815	M166 535 040	M1 420 938
Customs modernisation	0	M5 956 561	M57 578 000	M63 534 561	M2 374 974.25
LRA house	0	M28 552 200	0	M28 552 200	0
Sani Pass Border refurbishment	0	M10 000 000	0	M10 000 000	0

International relationships

The LRA is a member of the African Tax Administration Forum (ATAF) based in Pretoria. ATAF is a continent-wide body. During the year under review, I participated in several forums, and LRA technical experts contribute to the body's knowledge resources on specific tax issues such as transfer pricing. LRA staff, as part of ATAF's list of accredited experts, have been engaged in training colleagues in other countries.

We are also members of the World Customs Organisation (WCO), whose remit is the facilitation of seamless trade between member states. Within this framework, during the year under review, we embarked on finalising interconnectivity of computer systems between Lesotho and South Africa to eliminate the mismatching of exports and imports between the two countries through the use of a single customs declaration. This will be rolled out during 2019/20.

We have also signed the SADC-EU Agreement to facilitate trade between the SADC and EU countries.

The Trade Facilitation Agreement (TFA), which is a free trade agreement seeking to reduce barriers to trade for African countries, has been under negotiation for a number of years. Lesotho, as one of the first countries to ratify it, continues to play a key role in the discussions that articulate the customs rules and verifications of the origins of goods.

The Southern African Customs Union (SACU) – WCO agenda was concluded during the year under review, after running for eight years. This is also a trade facilitation initiative, driven by the WCO, and financed by Sweden, and which has now handed over its elements to the five SACU countries – Lesotho, eSwatini, Namibia, South Africa and Botswana.

During the year under review, the LRA also hosted the VAT Administrators Forum for Africa conference from 10 to 12 October 2018 in Maseru. The conference explored several topics, including the impact of tax expenditures in VAT performance, exploring ways of improving VAT collections, the role of effective VAT administration in facilitating transborder trade, and VAT audit in an integrated environment.

Corporate Social Investment

I am proud to be able to report that the LRA's commitment to the upliftment of our communities continued during the year under review with three important projects that not only brought benefits to the communities involved, but also served to raise the profile of the organisation as one committed to the wellbeing of all the country's citizens.

Bacha Entrepreneurship Project

The Bacha Entrepreneurship Project is a collaborative effort by the LRA , BEDCO and Standard Lesotho Bank which aims to arrest the effects of unemployment among youth. The project is now in Phase II after a three-year piloting of Phase I. The intention is to build a crop of young entrepreneurs who can break the barriers to become job creators, rather than job seekers.

The project extended its scope from targeting candidates with tertiary education only, to include unemployed young people between the ages of 21 and 35, holding LGCSE/COSC and higher certificates. Four companies – MD Piggery, PASA Production, Lesotho Bookings and Wild Plants Growers – were announced as winners to be financed with a combined start-up capital of M700 000.

Van Rooyen's Gate Water Project

The LRA, acting in response to the community's request, implemented a water project intended to provide clean potable water to about 200 households residing around the Van Rooyen's Gate area. The construction work included provision of a steel stand, solar panels, water pump, a chamber and a 10 000-litre tank. The project maintained LRA's commitment to its service culture and collaborative approach towards the concerns of its stakeholders. The Authority carried out a similar project for the communities residing in the vicinity of the Sani Pass in Mokhotlong in previous years.

Hlokomela Banana campaign

The LRA officially handed over a cheque of M51 748 to Her Majesty Queen 'Masenate Mohato Seeiso at the Royal Palace. The donation was made towards Her Majesty's campaign to provide free sanitary towels to underprivileged girls in high schools. The campaign is known as Hlokomela Banana (Their Freedom, Our Future). A total of 777 girls drawn from 10 schools across the country benefited from the initiative. Through the availing of sanitary towels and toiletries to learners, this initiative, under the auspices of the Queen's National Trust Fund, seeks to enhance the girls' accessibility to their learning environment.

(For more on stakeholder engagement, see page 30.)

Acknowledgements

In being able to report on our successes during the year under review, I need to acknowledge and thank the many people and bodies who have made these successes possible.

As our new Board was constituted in November 2017, 2018/19 is its first full year at the helm of the LRA. When the Board took up its duties, it came into an organisation that was in some way traumatised and demotivated to a large degree. The Board, under the skilled guidance and mentorship of its Chairman, Mr. Robert Likhang, showed leadership in their support for executive management in the strategic proposals that we presented to them, and for the drastic change in direction that was required.

The Board was agile enough to trust us, as management, to initiate and undertake the changes. There were tough decisions that had to be made, and it needed a Board that was skilled and united enough to turn the LRA around. It is thanks to their unstinting leadership that we were able to achieve the additional M1 billion in revenue, and mark our 16% growth relative to the prior year.

The role of the Minister of Finance was also critical in the process. He expressly appointed the Board to restore what he called "the glory days of the LRA". His support in appointing the Board, and the support we as management received in turn, enabled us as the executive team to present our concept of how it could be done.

None of it would have been possible, however, were it not for the people who do the job. If our staff had not bought into the vision, if they had not given the Minister, the Board and the executive a chance to implement the ideas we proposed, we would not have been able to achieve what we did. We, as management, are only as good as the team that has worked so hard to bring about the turnaround.

The staff union was another key player, and I need to thank them for their role and open-minded participation in the process. In understanding the constraints we faced, and in the same way as we understood the constraints that they faced in protecting the welfare of their members, they helped demonstrate that there is trust and good faith in our social, spiritual and human capitals. These are the areas in which we will continue to grow. It is our belief that if we can fix the relationships, we can fix the whole, and we have taken great strides in doing just that in the year under review.

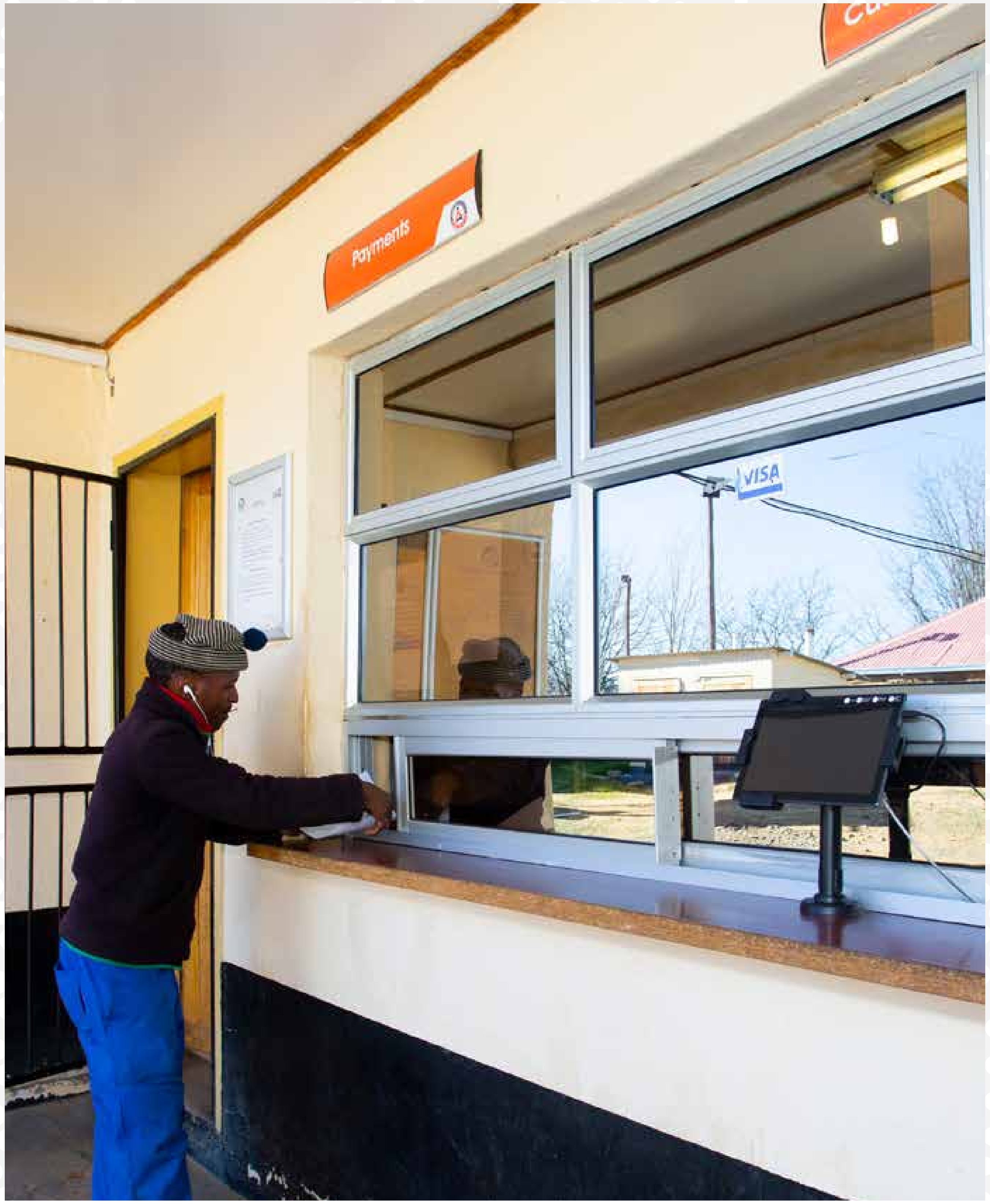
We have also enjoyed significant support from the government through various ministries, led by their principal secretaries and the ministers. We now sit as advisors to the government sub-committee on budget, and I would like to thank all involved for enabling us to help shape economic policies.

We also enjoy important relationships with other agencies, particularly when it comes to the smooth functioning of our border posts. We have a memorandum of understanding with the Road Fund, for whom we do work in the form of collecting toll fees. I would like to thank them for the collaboration that they demonstrated in resolving the teething problems in our arrangement.

I would also like to thank the Central Bank for their continued input, and the Lesotho Mounted Police Service, with the Commissioner of Police continuing to be a key figure in our relationship.

Lastly, and by no means least, I need to thank our Clients. In a year when we stopped pursuing them, they came forth and vindicated our belief that people are indeed willing to do the right thing. Once we changed our philosophy to one in which innocence is presumed rather than the converse, it has been their willingness to comply that has enabled us to deliver the outstanding results that we have, ultimately for the benefit of us all.

Mr. Thabo David Khasipe
Commissioner General



A client lodging a declaration at Van Rooyen's Gate.

MANAGING RISK

Our risk management function falls within the office of the Commissioner General. At the commencement of the implementation of the Rea Aha strategy in the year under review, the strategy team carried out a risk assessment and presented a corporate risk register with initiatives that were incorporated into the strategic plan. Towards the end of 2018/19 the executive management team analysed the progress that had been made in the implementation of the mitigating initiatives to determine whether these risks had been properly mitigated, and if not, what alternative measures could be taken to address the risks.

Our risk management framework

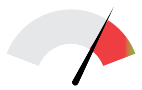
The LRA risk management framework consists of:

- Risk management governance and operational structures
- Risk management policy
- Risk management standard operating procedure
- Risk registers and risk reports

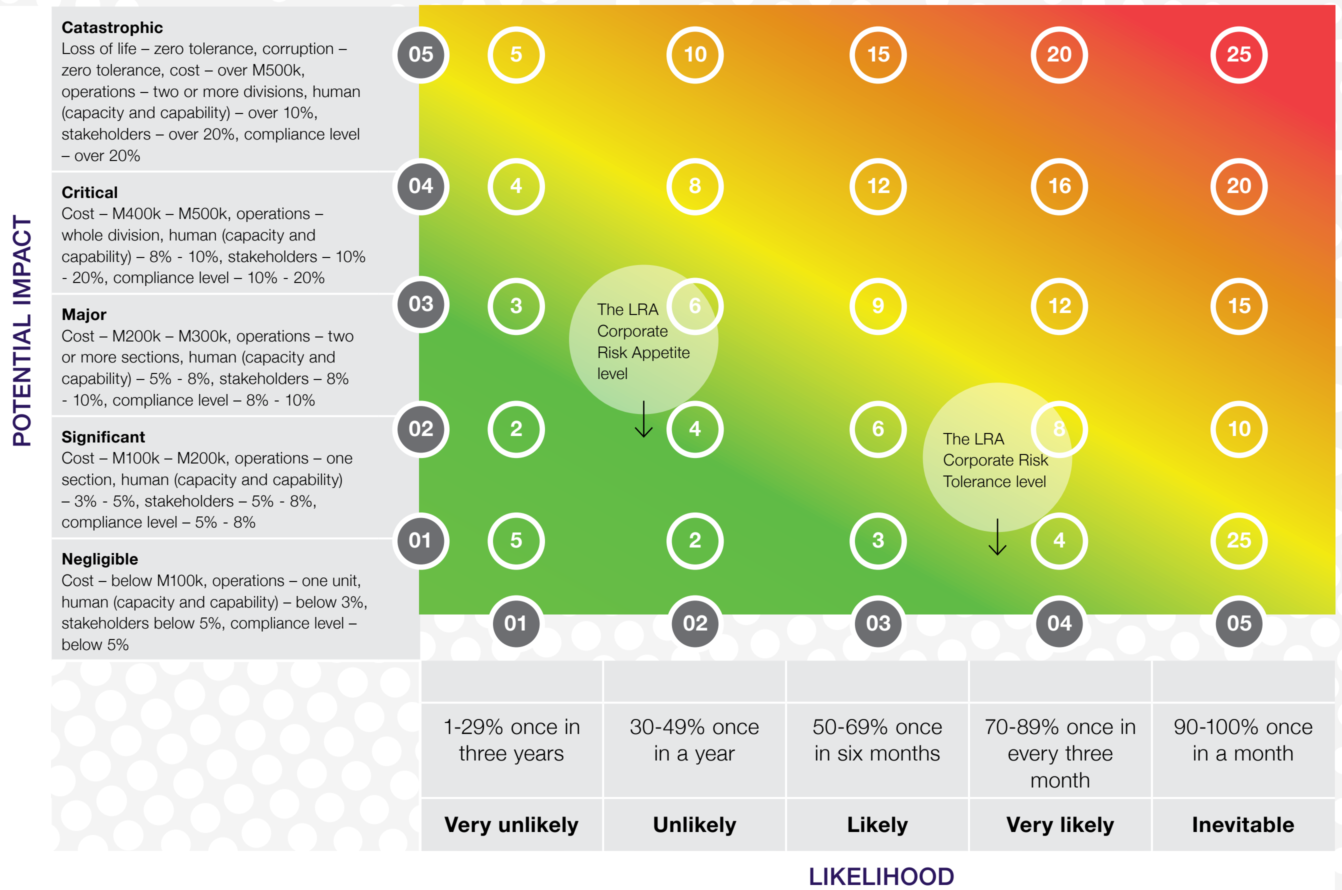
Our risk governance structures include:

- The Finance and Audit Committee (FAC) of the Board which provides oversight on effective management of the LRA risks
- The Executive Committee (EXCO), which implements the risk management framework
- The Compliance Risk Management Committee which is responsible for the comprehensive compliance risk management process

Risk appetite and tolerance levels

Risk level and index	Risk magnitude	Risk acceptability	Proposed actions and level of Authority			
			Corporate risk criteria	Operational risk criteria	Project risk criteria	Taxpayers' compliance risk criteria
Level 4 20 – 25	High risk 	Unacceptable	Take action to reduce risk with highest priority Board of Directors and Commissioner General's attention	Take action to reduce risk with highest priority Commissioner General and divisional heads' attention. Risk might also be escalated to the Corporate Risk Register	Take action to reduce risk with highest priority EXCO and Board's attention Risk might also be escalated to the Corporate Risk Register	Take action to reduce risk with highest priority EXCO's attention Risk might also be escalated to the Corporate Risk Register
Level 3 12 – 16	Medium risk 	Unacceptable	Take action to reduce risk with high priority Commissioner General and senior management's attention	Take action to reduce risk with high priority Divisional heads and divisional management's attention	Take action to reduce risk with high priority EXCO's attention	Take action to reduce risk with high priority Revenue Management Committee's attention
Level 1 1 – 4	Low risk 	Unacceptable	Take action to reduce risk Inform senior management	Take action to reduce risk Inform departmental head	Take action to reduce risk Inform Project Steering Committee	Take action to reduce risk Inform Compliance Risk Management Committee and relevant departmental heads
	Negligible risk	Acceptable (risk tolerance and appetite level)	No risk reduction Maintain current controls, monitor, inform management	No risk reduction Maintain current controls, monitor, inform sectional head.	No risk reduction Maintain current controls, monitor, inform Project Steering Committee	No risk reduction Maintain current controls, monitor, inform Compliance Risk Management Committee

Risk matrix

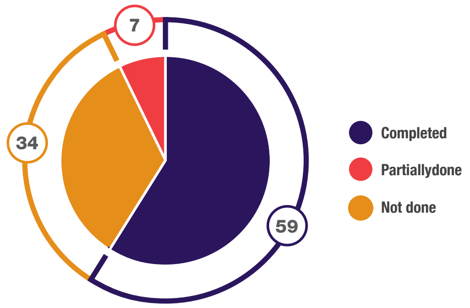


Risk report

The report on progress of implementation of risk mitigation initiatives for the year under review showed a completion rate of 80%, with 20% partially completed.

The chart below depicts annual performance against the risk register.

RISK MITIGATION COMPLETION
2018/19



Risk	Rate	Mitigation	Risk owner	Risk mitigation completion status
		Spiritual Capital		
Lack of adaptability to change by management	20	Restructure performance management system to prioritise cultural fit	Business Enablement	
		Social Capital		
Bad publicity by both internal and external stakeholders	25	1. Collaborate with Lesotho Revenue Authority Staff Union (LeRASU) 2. Run a strategy communication campaign	Business Enablement CG's office	
		Human Capital		
Inadequate structure	20	Review organisational structure	Business Enablement	
Unrealistic staff expectations	20	Collaborate with LeRASU	Business Enablement	
Inadequate performance management system	25	Introduce a performance management system aligned to strategy	Business Enablement	
Low staff morale	25	Improve staff engagement in reviewing work conditions and internal staff	Business Enablement	
		Innovation Capital		
Lack of co-operation by other government agencies (OGAs)	20	Collaborate with OGAs	CG's office	
Lack of national infrastructure	25	Implement redundancy across IT platforms	Operations Support	
Ineffective IT systems	25	1. Develop and implement IT strategy 2. Stabilise IT systems	Operations Support	
		Financial Capital		
Ineffective execution	20	Introduce a delivery function	CG's office	
Inadequate funds	25	Review LRA funding	Business Enablement	
Clients' evasion and avoidance schemes	25	Build capability to detect and enforce tax evasion	Head Business Enablement	

OUR HUMAN CAPITAL

During the year, we reviewed our performance management system to align with the new Rea Aha strategy to ensure that it supports both execution of the strategy and measurement of performance against it. The review entailed a change in the planning methodology, a revision of templates, identification of key performance indicators (KPIs) and the introduction of competencies. The changes resulting from the review were communicated with staff and the necessary support was provided.

Strategic initiatives in support of corporate strategy – 2018/19

Objective	Coherent action	Activity undertaken
Embody a collaborative servant culture throughout the organisation	Introduce a service culture programme	As a first step in introducing the programme, it became necessary to once again obtain the views of LRA internal and external stakeholders concerning service delivery beyond the feedback already provided during the strategy diagnosis session. To this effect, a mystery shopping survey was undertaken with external and internal stakeholders on the status of service delivery by the Authority. On another note, identified companies/organisations that are regarded as offering good service were also visited to provide insights on what drives the culture. Feedback from the two activities will inform the development of the service culture programme and the LRA service charter.
Build internal trust	Establish trust-building mechanisms	It became evident during the strategy diagnosis process that trust has been eroded within the organisation hence the initiative to develop trust-building mechanisms. During the period under review, staff workshops were facilitated through the engagement of an independent service provider. The purpose of the workshops was to further interrogate the issue of trust and identify the factors that had led to the status quo, as well as the way forward. The workshops also culminated with counselling sessions on these matters. Trust-building is critical for the LRA due to the value attributed to our spiritual capital as outlined in the *Rea Aha* strategy.
	Introduce staff collaboration mechanisms	During the year under review, an inter-divisional sporting event was instituted. The event brought management and non-management staff together as members of the LRA family. This helped to affirm that by working together more can be achieved. It was at this gathering that the 4DX approach, which we have adopted in implementing the strategy, was launched.
Increase staff competencies	Introduce a structured training programme	During the year under review a Human Capital Management (HCM) Training Plan was developed and implemented, as the HCM strategy provides for capacitation of HCM staff. This move was significant for achieving the corporate strategy as the bulk of initiatives to be implemented relate to people, with 73% of the planned interventions implemented in respect of HCM capacity-building. M6.7 million has been spent on training interventions.
	Introduce a performance management system aligned to strategy	During the year, we reviewed our performance management system to align with the new *Rea Aha* strategy to ensure that it supports both execution of the strategy and measurement of performance against it. The review entailed a change in the planning methodology, a revision of templates, identification of KPIs and the introduction of competencies. The changes resulting from the review were communicated to staff and the necessary support was provided.

Objective	Coherent action	Activity undertaken
	Review organisational structure	We engaged in an exercise to review the organisational structure following the development of the *Rea Aha* strategy. The process was initiated with the development of the Authority's operating model, which presented the new value chain aligned to the new strategy. It is this operating model that informed the development of the macro-organisational structure with its five divisions. Guidelines on placement of staff within the new structure were also developed. The operating model, the macro-structure and the placement guidelines developed in consultation with staff were approved by the Board and final outcomes were workshopped for all staff. Following approval of the macro-structure, the development of job profiles for the four heads of divisions commenced and were approved by the Board to initiate the recruitment process. The organisational structure review is implemented in an evolutionary manner as opposed to a big-bang approach. The significance of this approach is that it allows for continuous improvement during the process, while at the same time mitigating high levels of disruption to business operations.
Increase staff motivation	Undertake remuneration survey to ensure internal and external equity	An exercise was undertaken to review staff salaries. We participated in a benchmark study and subsequently engaged an independent consultant to assist us with the review exercise. Salaries for all staff were accordingly adjusted, based on percentages approved by the Board. We aspire to offer competitive remuneration and will thus continue to review our remuneration practices.

Youth Development Programme

The depletion of critical skills within the Authority necessitated the building of a talent pool internally from which the hiring needs of the Authority will be met. As such, the Authority engaged qualified youth from institutions of higher learning across the country. The qualification criteria for the programme are:

- Candidates not older than 30
- Candidates holding an academic certificate not more than two years old
- Candidates demonstrating excellent academic results, i.e. top performers

There are currently 40 young Basotho engaged under this programme, with an additional 103 recruited by 1 July 2019. In total, the LRA aims to engage 143 young Basotho under the Youth Development Programme. The programme will develop the youth by introducing them to the world of work by giving them necessary experience.

Engagement with staff as stakeholders

Stakeholder	Material issue	Current position	Desired position	Required action	Timeline
Employees	Build internal trust	Low levels of engagement. Lack of internal trust	High levels of engagement that enable a service culture	Introduce a recognition programme. Establish engagement mechanisms	March 2020
Lesotho Revenue Authority Staff Union (LeRASU)	Build relationship with the union	Relationship with the union has improved	Strong relationship between the union and management	Frequent engagements with the union	March 2020

INFORMATION TECHNOLOGY (IT)

During the year under review, in order to ensure its alignment to the Rea Aha strategy, the IT function conducted an analysis of our innovation capital, and noted a number of Information and Communication Technology (ICT) challenges. Despite several technology investments, the value that ICT delivers to the LRA has depreciated over time due to a number of factors. Among these factors were systems issues that took a long time to be addressed as a result of a broken ICT value chain, an inability to retain adequate skills, and a poor service culture.

The Board understood the urgency of accelerating the restructuring of IT and approved its recommendation in August 2018. Following the Board approval, the project team developed the IT operating model, IT micro-structure and IT staff placement guidelines as frameworks to address the challenges.

Staff consultations on the three frameworks were held from 1 to 19 February 2019 for LRA Management, LeRASU, IT personnel and all LRA personnel, with a total of 286 staff members consulted.

ICT – progress against strategy FY2018/19

The IT department is continued with implementation of the 15 activities planned for in the period under review. More focus is placed on the eight that were prioritised due to capacity limitation, and the fact that the implementation of the ICT strategy commenced in the middle of the quarter.

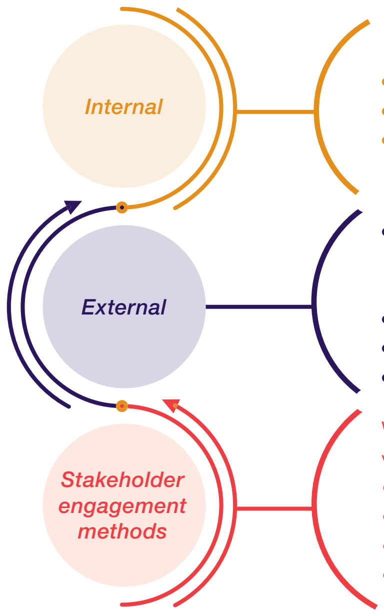
Strategic initiatives in support of corporate strategy – 2018/19

Activity	Progress	Next steps
	People	
Capacitate staff	Some training initiatives on the 2018/19 training plan were deprioritised and replaced by others that were not part of the training plan but were required to realise the Wildly important goal. These training initiatives have been moved to the 2019/20 financial year.	Approval of 2019/20 training plan and attendance of approved training initiatives for further capacitation of IT staff.
	People	
Review IT governance framework	IT and physical records policies were approved by the Board. Staff awareness, conclusion of SLAs and finalisation of the solution delivery framework rescheduled to the end of April 2019 to avoid end-of-financial-year congestion.	Staff awareness of revised policies. Conclusion and sign-off on: • ETPM SLA • ASYCUDA SLA • Oracle EBS SLA Finalisation of the updated solution delivery framework.
	IT infrastructure	
Stabilize IT systems	• All ICT equipment delivered • Implementation of ASYCUDA redundancy 95% completed • Final testing done on the weekend of 6 April 2019	Test and commission the solution.
	Processes	
Review and update business processes – customs and taxes (integration of client-facing processes)	Progress has been made on four main client processes: • I want to enquire • I want to complain • I want to declare • I want to change ownership	Close support and business process monitoring of the deployed solutions. Awareness and implementation of the appeal process.

STAKEHOLDER ENGAGEMENT

We understand that as the LRA, we cannot fulfil our mandate without regular engagement with our stakeholders on a wide variety of matters pertaining to our ability to collect revenue, labour and workplace issues, legislative and regulatory requirements and compliance on the part of our Clients. We exchange views regularly with our stakeholders in order to understand their concerns and to make them aware of the issues facing the LRA that affect our ability to deliver on our mandate. We also engage with our stakeholders to obtain feedback on the services we provide.

Who are LRA stakeholders?



- Staff
- LeRASU
- LRA Board members

- Government ministries, including:
  – Government departments
  – District administrators
- Development partners
- NGOs
- Embassies
- Development partners
- Associations
- LRA Business Partnership Forum
- Media
- Telecommunications organisations

We communicate with our stakeholders via a variety of channels and platforms, including:

- Invitation letters
- Workshops
- Breakfast, lunch, and/or dinner meetings
- Tax clinics
- Lekhetho Khotla
- Media, including newspapers, television, website, social media, billboards and radio
- Exhibitions, including educational material
- Surveys

Our principal stakeholder engagements – 2018/19

Key stakeholder and contact point	Thematic issues	Method of engagement	Frequency
In support of strategy			
Media houses	Publicity of new LRA initiatives	Face-to-face sessions	Every other month
Principal secretaries; CEOs of companies; Forum Executive Committee	Collaboration and regular communication with stakeholders	Face-to-face sessions	By week 2 of every month
All staff	Staff-related issues (remuneration, strategy, 4DX)	Staff engagement forums; face-to-face meetings; memos; Snapcom	Once-off
In support of partnerships			
Clearing agents; freight forwarders; self declarants; OGAs	Accreditation Information dissemination on risks issues on prohibited and restricted goods Memorandum of understanding	Website; meetings	Once-off; as and when required

INTERNAL AUDIT

The internal audit function is established by the Lesotho Revenue Authority's Board of Directors as the highest level of the governing body. The internal audit function's responsibilities are defined by the Board as part of their oversight role.

It is the policy of the LRA to support Internal Audit as an independent, objective, assurance and consulting activity to review, examine and evaluate the activities of the Authority as a service to management and the Board. The purpose, authority and responsibility of the function are formally defined in its audit charter, as approved by the Finance and Audit Committee (FAC).

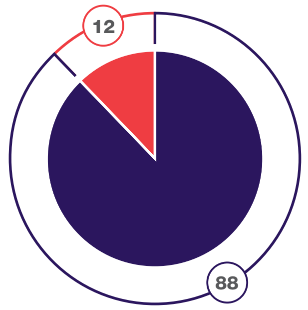
The audit approach and methodologies are based on the Standards for the Professional Practice of Internal Auditors (IPPF). Internal Audit has adopted a risk-based approach to auditing.

During the year under review, as per the requirements of the IPPF and the Internal Audit Charter, the Head of the internal audit function reports administratively to the Commissioner General and functionally to the FAC with effect from 1 October 2018.

The 2018/19 Audit Plan was drawn up with inputs from the external auditors, relevant internal stakeholders and other assurance providers in line with Standards of the Institute of Internal Auditors and was approved by the FAC.

During 2018/19, the plan was to conduct 17 audits from an audit universe of 120. Of the planned audits, 88% were completed and, with FAC approval, Internal Audit has carried 12% forward into the 2019/20 financial year coverage plan. Of the completed audits, 60% of the audit recommendations were implemented to enhance our control environment.

INTERNAL AUDIT FUNCTION PERFORMANCE
2018/19



Management is addressing those areas which were reviewed and classified unsatisfactory and the results are being evaluated quarterly by the Internal Audit through follow-up audits. Internal Audit collaborates and has good working relationships with the Board, management, other assurance providers and staff.

Mohale's Hoek Service Centre.

GOVERNANCE

Our Board

The LRA is governed by a Board comprised of representatives from the public, parastatal and private sectors. The Board is appointed by the Minister of Finance in accordance with the LRA Act No. 14 of 2001, and sits on a monthly basis.

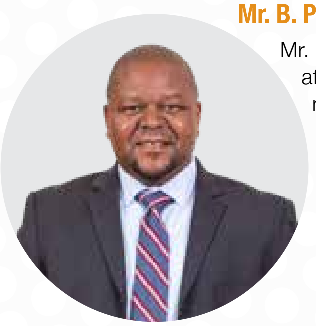
Mr. R. Likhang, Chairman of the Board

Mr. Likhang was appointed as the LRA Board Chair from November 2017, which was the second time (having first been appointed in 2002), wherein he was the chair of the Finance and Audit Committee. He is also currently serving on the boards of the Southern African Institute of Chartered Secretaries (Chairman), Lesotho Institute of Accountants (Chairman), and Lesotho Post Bank. He is the Chairman of the drafting committee of the Mohlomi Code (Lesotho's code of good corporate governance). He previously served as a board member for SADC Development Finance Resource Centre (Botswana) and Lesotho National Development Corporation.

Mr. Likhang has extensive experience in governance, strategy and finance, being a chartered secretary, chartered global management accountant, and chartered accountant. He runs a professional services firm providing accounting, consulting and training services in Lesotho.

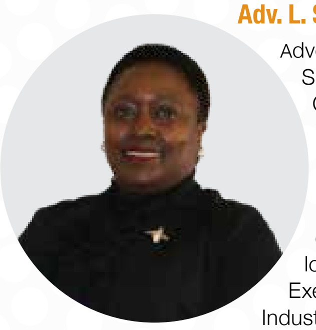
Mrs. L. Leisanyane, Vice Chairman

Mrs. Leisanyane was appointed as the Deputy Chair of the LRA Board from November 2017. She is also serving on the Board of the Lesotho Petroleum Fund. She previously served in the Council of Lerotholi Polytechnic where she was also Chair of the Audit and Risk Committee. Mrs. Leisanyane has extensive experience in economics, statistics and corporate governance. She is currently working as Acting Director, Department of Macroeconomic Policy and Management in the Ministry of Finance.



Mr. B. Phakoe, Board member

Mr. Phakoe was appointed as the member of the LRA Board from November 2017 (which is his second time after serving part term in the fourth Board). Mr. Phakoe has extensive experience in financial markets and risk management and is currently working as a Director of Financial Markets at the Central Bank of Lesotho. Within the Board, Mr. Phakoe is also serving in the Human Resource and Remuneration Committee as the Chairperson as well as in the Finance and Audit Committee.



Adv. L. Sephomolo KC, Board member

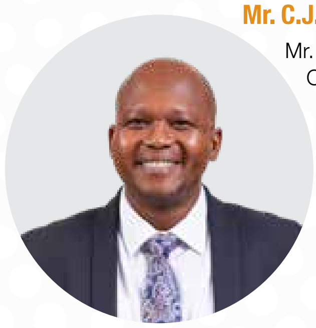
Advocate Sephomolo KC is the Chief Executive Officer of the Association of Lesotho Employers and Business. She was appointed as a member of the LRA Board from 2015 and during that period she served as the Chairperson of the Human Resource and Remuneration Committee. She is currently serving on two Board committees, namely Information and Communication Technology Committee and Human Resource and Remuneration Committee (HRRC). She is an advocate of the Courts of Lesotho, a specialist in Labour Law, a seasoned negotiator and policy specialist with over 23 years' post legal qualification. She has received national recognition and has been appointed King's Counsel. She is passionate about business development and trade. Her postgraduate studies include courses in the area of labour law, trade and policy, lobbying and advocacy, corporate governance. Previously Adv. Sephomolo worked as the first Chief Executive Officer of the Private Sector Foundation and has also been advisor to the Ministry of Trade and Industry where she was responsible for the establishment of the One Stop Business Facilitation Centre. She is an active spokesperson of employers nationally, regionally and internationally.

Mr. L Mokaoane, Board member

Mr. Mokaoane was appointed as the LRA Board member from November 2017. He is also the Chair of the Finance and Audit Committee. He is serving on the board of Lesotho Institute of Accountants, and also chairs the Audit and Risk Committee of the Institute. Mr. Mokaoane has extensive experience in Finance, having worked in that field for the past 19 years, and being a chartered accountant. He is currently working as the Chief Finance Officer for Lesotho Highlands Development Authority. He previously worked in WASA (currently WASCO) and the Office of the Auditor General.

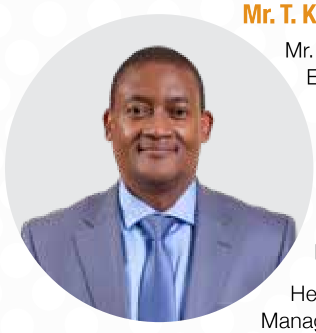
Mrs. T. Mojela, Board member

Mrs. Mojela was appointed as the member of the LRA Board from 2015, during that period she served as a committee member of both the Finance and Audit Committee (FAC) and Human Resources Remuneration Committee (HRRC). She is serving her second term as a Board member of the LRA. Mrs. Mojela was also a chairperson of the BEDCO Board of Directors. She has extensive experience in trade and industrial development issues, and has previously worked as a business counsellor at Lesotho Manufacturers Association. She is currently working as the Director of Industry within the Ministry of Trade and Industry.



Mr. C.J. Ramolise, Board member

Mr. Ramolise was appointed as the member of the LRA Board from November 2017, within which he is the Chairman of the Information and Communication Technology Committee as well as a member of the Finance and Audit Committee. He is also serving on the Board of WASCO as the Chairman, and the Board of Tloutle Holdings as the Deputy Chairman. Mr Ramolise is an economist and accountant by training, an experienced financial markets expert, a risk practitioner, a banker and business development expert. He is an economist of the Lesotho Chamber of Commerce & Industry.



Mr. T. Khasipe, Commissioner General

Mr. Khasipe, Commissioner General of the Lesotho Revenue Authority, obtained a bachelor's degree in Economics at the National University of Lesotho before enrolling at the University of Nairobi (Kenya) where he graduated with a Master's Degree in Economics. He also obtained MBA from the University of Free State in 2008.He then enrolled for the CFA Chartered Exam which he successfully passed in 2013.

Mr. Khasipe joined the LRA as Commissioner of Customs and Excise in 2003 and was later appointed to the position of Deputy Commissioner General, serving in the position from 2004 to 2007. He also acted in the position of Commissioner General for a period of one year. He then joined Stanlib Lesotho as General Manager from 2007 to 2008.

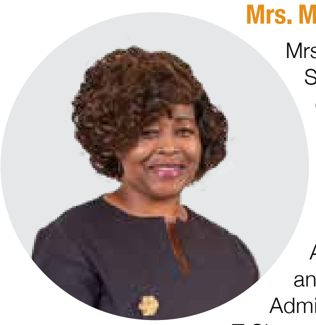
He was the Lesotho`s Ambassador to both Kuwait and Egypt from 2008 to 2014 before joining DAvCap as Managing Director from 2014 to 2015. His last appointment, before joining LRA, was to the post of Deputy Executive Secretary at Southern African Customs Union Secretariat in Namibia.

Our Executive Committee (EXCO)

Mr. Tseko Nyesemane, Acting Head of Client Services

Mr. Nyesemane, Acting Head of Client Services Division obtained a BA Economics degree from the National University of Lesotho, and has graduated with a master's degree in economics (Macroeconomic Management) from the Renmin University of China. He also obtained a MComm in Programme Management from the Cranefield College of Project and Programme Management.

Mr. Nyesemane joined the LRA in 2003 working in the Enforcement Unit of the Administration and was later appointed to the role of Customs Operations Manager in the Customs Division following which he was appointed to the position of Deputy Commissioner in the Customs Division.

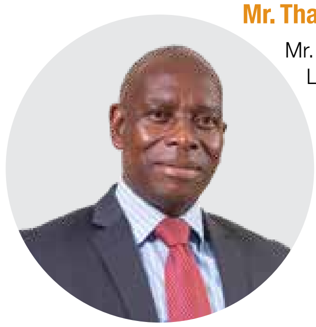


Mrs. Manneheng Mopeli, Acting Head of Operations Support

Mrs. Mopeli, Acting Head of Operation support holds a B. Comm Degree from National University of Lesotho (NUL). She also holds designations of Chartered Public Relations Practitioner (CPRP) by the Public Relations Institute of Southern Africa, a Certified Director of the Institute of Directors Southern Africa (IoDSA) and a Registered Accountant with the Lesotho Institute of Accountants. In addition to the Executive Development Program (EDP), she has benefitted from three years of practical Professional Leadership Coaching by YSC International.

Mrs. Mopeli joined the LRA in 2013 as the Chief Corporate Services Officer. She previously held the positions of: Director Finance and Corporate Services (National AIDS Commission), Management Accounting Manager (Lesotho Electricity Company), Financial Controller (Road Fund), Capital Accountant and Acting City Treasurer (Maseru City Council), Finance Associate (UNFPA) and Senior Accounts and Administration Officer (Highlands Water Venture). A self-proclaimed life traveler in the leadership journey and a T-Shaped professional across a spectrum of sectors and different functional areas.

As part of her governance competence, she served the Lesotho Highlands Development Authority and the Metolong Authority Board of Directors as a member of the Finance and Audit Sub-Committee. She continuously reinvents herself by through professional memberships of the Institute of People Management (IPM) and the Chartered Institute of Procurement and Supply (CIPS).



Mr. Thabo Moleko, Acting Head of Business Enablement

Mr. Moleko, Acting Head of Business Enablement holds a B.Com degree from the National University of Lesotho. He has extensive work experience in taxes dating from the old Sales Tax Department as member of its management. He has been instrumental in leading the introduction and implementation of a VAT system that replaced Sales Tax in Lesotho. He has served at both middle and executive levels and has a wide experience in taxes gathered during twenty-five (25) years of service in management of tax and customs administrations. Mr. Moleko has demonstrated a high level of leadership ability in putting together tax compliance, revenue collection and trade facilitation strategies during his tenure as a Deputy Commissioner, Commissioner Customs and Excise and Commissioner Domestic Taxes.

Mrs. Makali Lepholisa, Acting Head of Core Operations

Mrs. Lepholisa, Acting Head of Core Operations holds a BCom accounting degree from the University of Swaziland obtained in 1994 and an MBA from Business School of Netherlands obtained in 2007. She has also obtained a master's degree in Customs Administration from Charles Sturt University in Australia.

Mrs. Lepholisa joined the LRA in 2003 as a Principal Collector in VAT refunds for 2 years, later became a VAT Audit manager for 2 years until 2007 when she was appointed manager in Tax Technical serving in that role for a year. She has been in the executive committee of the LRA since 2013 when she was appointed Commissioner of Customs. Before appointment into the current position, she was appointed Acting in the position Client Services.

Board committees and roles

COMMITTEES	ROLES	MEMBERS	FOCUS AREAS in FY2018/19	FOCUS AREAS for FY2019/20
The Finance and Audit Committee (FAC) met eight times during the year under review.	The committee provides oversight on the financial management of the LRA including ensuring the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The committee is also responsible for risk management and oversight of the internal audit function.	Mr. L. Mokaoane (Chairman) Mrs. L. Leisanyane Mr. B. Phakoe Mr. C.J. Ramolise Mr. T. Khasipe	• Approve policy to migrate from the COSO framework to ISO 31000 • Ensure independence of Internal Audit by separating it from other assurance functions • Set up a Governance risk and compliance function • Ensure financial sustainability of the Authority through responsible financial management • Empowerment of committee members in risk management • Review of the Committee's Charter • Review of the Internal Audit Charter	• Integrated reporting • Review of the funding model • Collection of Non-tax Revenue • Disclosure requirements of King IV
The Human Resource and Remuneration Committee (HRRC) The committee met 11 times during the year under review.	The committee assists the Board with oversight on human resources management, recruitment processes for executive management, including the Commissioner General, remuneration matters and general staff welfare matters.	Mr. B. Phakoe (Chairman) Adv. L. Sephomolo KC Mrs. T. Mojela Mr. T. Khasipe	• Design organisational structure (SAS) • Review IPMS • Develop an onboarding programme (service culture) • Introduce a structured training programme • Build internal trust and staff collaboration	• SAS • Build an employer brand • Establish a training academy • Review Staff benefits • Disclosure requirements of King IV
The Information and Communication Technology Committee (ICTC)	The committee is responsible for providing advice to the Board with regard to monitoring the adequacy, efficiency and effectiveness of the LRA's ICT policies and investments, in as much as these may impact the strategy, financial performance and risk profile of the LRA. The committee is also responsible for ensuring the alignment of ICT investments with the overall LRA strategy.	Mr. C.J. Ramolise (Chairman) Mrs. L. Leisanyane Adv. L. Sephomolo KC Mrs. T. Mojela Mr. T. Khasipe	• IT governance • Restructuring IT • Capacity building on cyber security • ASYCUDA stabilisation	• Adoption of COBIT 2019 • Restructuring IT • ASYCUDA stabilisation • Expansion of service delivery channels • CMP Phase II • Disclosure requirements of King IV

Executive Committee (EXCO) and roles

COMMITTEES	ROLES	MEMBERS
Tender Committee	The committee is responsible for making necessary procurement decisions in order to ensure that goods and services procured in the LRA achieve value for money.	(Chairperson) Head of Business Enablement Senior Manager responsible for Finance Manager Supply Chain Head of Buying Division

The operations of the LRA are governed by EXCO which comprises heads of divisions and is chaired by the Commissioner General. The EXCO charter has been developed. EXCO is designed to have sub-committees which assist it in fulfilling its mandate. However, due to the restructuring process and the need to align the EXCO sub-committees to the new structure, the Tender Committee was the only sub-committee active during the period under review.

Staff at Van Rooyen's Gate motivated and ready to serve.

Board attendance – 2018/19

Date	Mr. R. Likhang (Chairman)	Mrs. L. Leisanyane (Vice Chairman)	Mr. B. Phakoe	Adv. L. Sephomolo KC	Mrs. T. Mojela	Mr. L. Mokaoane	Mr. C.J. Ramolise	Mr. T. Khasipe
13/04/18	x	x	x	–	–	x	x	x
16/04/18	x	x	x	x	x	x	x	–
18/04/18	x	x	x	x	x	x	x	–
26/04/18	x	x	–	–	x	x	x	–
11/05/18	x	x	–	x	x	x	x	x
21/05/18	x	x	x	x	x	x	x	x
21/05/18	x	x	x	x	x	–	x	x
24/05/18	x	x	x	x	x	–	x	x
28/06/18	x	x	x	x	–	–	x	x
06/07/18	x	x	x	x	x	x	x	x
26/07/18	x	x	x	x	x	–	x	–
09/08/18	x	x	x	x	x	x	x	x
10/08/18	x	x	x	x	x	x	x	x
24/08/18	x	x	x	x	–	x	x	x
27/09/18	x	x	x	x	–	x	x	x
25/10/18	x	x	x	x	–	x	x	
13/11/18	x	x	x	x	–	x	x	x
29/11/18	x	x	x	x	x	x	x	x
06/12/18	x	x	x	x	x	x	x	x
06/12/18	x	x	x	x	x	x	x	x
18/12/18	x	x	x	x	–	x	x	x
18/12/18	x	x	x	x	–	x	x	x
19/12/18	x	x	x	x	–	x	x	x
23/01/19	x	x	x	–	–	x	x	x
07/02/19	x	x	–	x	x	x	x	–
07/02/19	x	x	–	x	x	x	x	–
21/02/19	x	x	x	x	x	x	x	x
28/02/19	–	x	x	x	x	x	x	x
28/03/19	x	x	x	x	x	–	–	–
Total meetings	29	29	29	29	29	29	29	29
Attendance	28	29	25	26	19	25	28	21
Apologies	1	0	4	3	10	4	1	8

FAC meeting attendance

Date	Mr. L. Mokaoane	Mr. C.J. Ramolise	Mr. B. Phakoe	Mrs. L. Leisanyane	Mr. T. Khasipe
19/04/18	x	x	x	x	x
17/05/18	x	x	x	x	x
07/06/18	x	x	x	x	–
19/07/18	x	x	x	x	x
19/10/18	x	x	x	x	–
23/01/19	x	x	x	x	x
25/01/19	x	–		–	x
19/13/19	x	x	x	x	x
Total meetings	8	8	8	8	8
Attendance	8	7	7	8	6
Apologies	0	1	1	0	2

ICTC meeting attendance

Date	Mr. C.J. Ramolise	Mrs. L. Leisanyane	Mrs. T. Mojela	Adv. L. Sephomolo KC	Mr. T. Khasipe
20/07/18	x	x	x	x	x
17/10/18	x	x	x	x	x
21/01/19	x	x	x	x	x
Total meetings	3	3	3	3	3
Attendance	3	3	3	3	3
Apologies	0	0	0	0	0

HRRC meeting attendance

Date	Mr. B. Phakoe	Mr. L. Mokaoane	Adv. L. Sephomolo KC	Mrs. T. Mojela	Mr. T. Khasipe
18/05/18	x	x	x	x	–
05/07/18	x	x	x	x	x
16/08/18	x	–	x	x	x
23/08/18	x	–	x	–	x
24/08/18	x	–	x	–	x
18/10/18	x	x	x	x	–
09/11/18	x	x	–		–
20/11/18	x	x	x	–	x
22/1//18	x	x	x	x	x
23/01/19	x	x	x	x	x
18/03/19	x	x	x	x	x
Total meetings	11	11	11	11	11
Attendance	11	8	10	7	9
Apologies	0	3	1	4	2

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

CONTENTS

DIRECTORS' STATEMENT OF RESPONSIBILITY AND APPROVAL

The Board of Directors of the Lesotho Revenue Authority (LRA) is required to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the Board's responsibility to ensure that the financial statements fairly present the state of affairs of the LRA at the end of the financial year and the results of its operations and cash flows for the year then ended, and in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the Lesotho Revenue Authority Act No. 14 of 2001.

The financial statements are prepared in accordance with the IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Directors acknowledges that it is ultimately responsible for the system of internal controls established by the LRA and places considerable importance on maintaining a strong control environment. To enable it to meet these responsibilities, the Board sets standards for internal controls aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the LRA and all employees are required to maintain the highest ethical standards in ensuring the LRA's business is in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the LRA is on identifying, assessing, managing and monitoring all known forms of risks across the LRA. While operating risk cannot be fully eliminated, the LRA endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints.

The Board is of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the presentation of the financial statements. However, any system of internal financial control can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Board has reviewed the LRA's cash flow forecast for the year to 31 March 2019 and is satisfied that the LRA has access to adequate resources to continue in operational existence for the foreseeable future. This is based on the understanding that the Minister of Finance will secure adequate funding for the LRA to meet its operational needs. The external auditors are responsible for independently reviewing and reporting on the LRA's financial statements.

The financial statements set out on pages 50 to 68 which have been prepared on the going concern basis, and were approved by the Board of Directors on 26 June 2019 and signed on its behalf by:

Robert Likhang

Mr. Robert Likhang
Chairman

Mr. Lefu Mokaoane
Director

DIRECTORS' REPORT

1. Nature of business

Lesotho Revenue Authority (LRA) is a semi-autonomous statutory body established by an Act of Parliament in terms of the Lesotho Revenue Authority Act No. 14 of 2001. The LRA is charged with the mandate of a) assessing and collecting *tax* on behalf of the Government of Lesotho (GOL), and b) administering and enforcing the revenue laws, which include the Customs and Excise, Income Tax and Value Added Tax. The LRA therefore collects inland taxes, duties and excise on behalf of the GOL and transfers the said to the GOL on a weekly basis.

For financial reporting purposes, the financial statements of the LRA are reported as LRA Own Accounts. The LRA Own Accounts cover those operational revenues, such as funding received from Government, which are managed by the LRA and utilised in running the organisation. The amounts in the collection accounts which were not transferred to the GOL accounts as at 31 March 2019 are included as part of cash and cash equivalents and as liability, i.e. amounts to be remitted to GOL. The purpose of the distinction is to facilitate, among other things, the assessment of the administrative efficiency of the LRA in achieving its mandate.

2. Financial performance

The recurring expenditure for the year amounted to M454 227 687 (2018: M386 107 717). The Authority incurred capital expenditure of M33 402 130 (2018: M8 069 737) on property, plant and equipment. Full details of the financial results are set out on pages 50 to 68.

3. Cash flow for the year

Own cash and cash equivalents at the end of the financial year were M261 683 004 million (2018: M254 123 627 million). A detailed statement of cash flows is on page 53.

4. Transfer of fixed assets to the Authority by Government

In terms of the Memorandum of Understanding between the GOL (Ministry of Finance) and the LRA provided for the transfer of all assets (non-movable and movable) free of charge, previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the LRA. These assets have been revalued by Lethola Cost Associate.

5. Corporate governance issues

In compliance with good corporate governance principles, the Authority has operated and maintained the following Board committees: Audit Committee, Finance and Tender Committee, Human Resource and Ethics Committees which remained effective throughout social responsibility.

The Authority is totally committed to putting back into the community it serves. This is done through the implementation of its Corporate Social Responsibility programme.

6. Board members

The Board members are appointed by the Minister of Finance. The following members served on the Board during the year under review:

From 1st November 2017	
Robert Likhang (Mr)	Chairman
Libako Leisanyane (Mrs)	Vice Chairman
Lefu Mokaoane (Mr)	FAC Chairman
Chabeli Ramolise (Mr)	ICTC Chairman
Bohlale Phakoe (Mr)	HRRC Chairman
Tsireletso Mojela (Mrs)	Member
Lindiwe Sephomolo (Adv)	Member
Thabo Khasipe (Mr)	Commissioner General

7. Bankers

The following financial institution was the banker of the Authority during the year:

Business address	Postal address
Standard Lesotho Bank	Lesotho Bank Building, Kingsway, Maseru
Nedbank	Head Office, 115-117 Griffith Hill, Kingsway Street P.O. Box 1001, Maseru, 100
First National Bank	Pioneer Road, Maseru
Lesotho Post Bank	Post Office Building, Kingsway Road, Maseru, Lesotho

8. Investment managers

The following financial institutions were the investment managers of the Authority during the year:
Stanlib Lesotho
Ground Floor,
MCG Office Park

9. Business and postal address of the Authority

Ground Floor,
Government Complex
Maseru

10. Auditors

The auditors of the Authority are:
Moores Rowland on behalf of the Auditor-General of Lesotho
Sentinel Park United Nations Road
P.O. Box 1252
Maseru, 100
Lesotho

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO REVENUE AUTHORITY

Opinion

Moores Rowland Chartered Accountants under Section 24(1) of the Audit Act 2016, have audited the financial statements of Lesotho Revenue Authority (the Authority) set out on pages 50 to 68, which comprise the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in accordance with the requirements of the Lesotho Revenue Authority Act, 2001.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISA). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Lesotho, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lucy L. Liphafa (Mrs)
Auditor-General

28 June 2019

OFFICE OF THE AUDITOR-GENERAL
AUDITOR GENERAL
28 JUN 2019
P.O. BOX 502
MASERU100, LESOTHO

STATEMENT OF FINANCIAL POSITION

as at 31 March 2019

	Notes	March 2019 M	March 2018 M
ASSETS			
Tangible assets			
Property, plant and equipment	2.1	201 332 405	226 818 352
Intangible assets			
Software	2.2	41 591 318	62 493 366
Current assets			
Accounts receivable	3	2 084 258	1 965 209
Bank and cash	4	73 553 583	93 437 998
Collections bank account balances	5	188 129 420	160 685 630
Total current assets		263 767 261	256 088 837
Total assets		506 690 984	545 400 554
CAPITAL AND LIABILITIES			
Capital and reserves			
GOL capital injection and projects funding	6	201 254 323	254 603 749
Accumulated surplus		35 041 250	68 113 063
Trust account	7	3 108 688	2 508 309
Total capital and reserves		239 404 261	325 225 121
Non-current liabilities			
Provisions for terminal benefits	8.1	28 792 622	33 186 716
Payable to Bank	9	3 478 258	5 690 869
		32 270 880	38 877 584
Current liabilities			
Provision for leave pay	8.2	6 323 291	3 540 504
Collections account balances remittable	5	188 129 420	160 685 630
Accounts payable and accruals	11	37 987 120	14 710 369
Payable to Bank	10	2 576 014	2 361 346
Total current liabilities		235 015 845	181 297 848
Total capital and liabilities		506 690 985	545 400 554

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

	Notes	March 2019 M	March 2018 M
Income			
Government funding		372 240 000	379 390 643
Interest received		5 953 056	5 411 258
Tollgate fees income		6 905 473	5 7 34 591
Storage income		7 15 496	514 957
Commission received		259 692	243 375
Other income		306 087	1 107 681
Amortisation project funds		34 628 193	32 789 550
Total income		421 007 997	425 192 055
Expenditure			
Staff-related expenses		294 032 877	239 682 829
Administration expenses		138 843 092	129 124 404
Compliance costs		12 238 446	8 456 686
Vehicle running costs		9 113 272	8 843 798
Total expenditure		454 227 687	386 107 717
(Deficit)/surplus for the period		(33 219 690)	39 084 338

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

for the year ended 31 March 2019

	Notes	Trust Account M	GOL Project funding M	Accumulated surplus M	Total M
Balance as at 31 March 2016		1 828 707	282 395 477	6 466 816	290 691 000
Trust funds		331 878	–	–	331 878
Grants – Government		–	32 158 493	–	32 158 493
Prior year adjustment		–	–	6 403 549	6 403 549
Current year amortisation		–	(12 756 076)	–	(12 756 076)
Surplus for the period		–	–	15 938 134	15 938 134
Balance as at 31 March 2017		2 160 584	301 797 895	28 808 499	332 766 978
Trust funds		347 724	–	–	347 724
Grants – Government		–	(14 404 596)	–	(14 404 596)
Prior year adjustment		–	–	220 227	220 227
Current year amortisation		–	(32 789 550)	–	(327 89 550)
Surplus for the period		–	–	39 084 337	39 084 337
Balance as at 31 March 2018		2 508 309	254 603 748	68 113 063	325 225 120
Trust funds		600 377	–	–	600 377
Grants LTMP		–	14 991 308	–	14 991 308
Grants – Government (prior year)		–	(33 712 541)	–	(33 712 541)
Prior year adjustment	16	–		147 877	147 877
Current year amortisation	17	–	(34 628 193)	–	(34 628 193)
Deficit for the period		–	–	(33 219 690)	(33 219 690)
Balance as at 31 March 2019		3 108 686	201 254 323	35 041 250	239 404 259

CASH FLOW STATEMENT

for the year ended 31 March 2019

	Notes	March 2019 M	March 2018 M
Cash flows from operating activities			
(Deficit)/surplus for the year		(33 219 690)	39 084 337
Adjustments for item not involving cash movement:			
Interest (received)/paid		(5 953 056)	(5 411 258)
Depreciation		40 408 870	38 274 906
(Decrease)/increase in provisions		(1 611 306)	12 023 957
Prior year adjustments	16	147 877	220 227
(Gain)/loss on fixed asset disposal		(190 440)	(987 831)
Surplus/(deficit) before changes in working capital		(417 745)	83 204 338
(Increase)/decrease in accounts receivable		(119 049)	(604 175)
(Increase)/decrease in accounts payable		23 276 751	1 115 832
(Increase)/decrease in collection accounts		27 443 790	61 751 069
Net cash inflow from operating activities		50 183 746	145 467 064
Cash flows from investing activities			
Interest received		5 953 056	5 411 258
Purchase of property, plant and equipment		(33 402 131)	(8 069 737)
Movement from PPE to operating costs		39 381 256	14 464 389
Proceeds on disposal of assets		190 440	1 016 878
Net cash outflow from investing activities		12 122 621	12 822 788
Cash flows from financing activities			
GOL capital funding		(53 349 425)	(47 194 146)
Funds account		600 377	347 726
(Decrease)/increase payable to loan		(1 997 943)	623 076
		(54 746 991)	(46 223 344)
Increase/(decrease) in cash and cash equivalents		7 559 377	112 066 508
Cash and cash equivalents at beginning of the year		254 123 627	142 057 119
Cash and cash equivalents at end of the period		261 683 004	254 123 627

1. Business activity

Lesotho Revenue Authority (LRA) is a semi-autonomous statutory body established by an Act of Parliament in terms of the Lesotho Revenue Authority Act No. 14 of 2001. The LRA is charged with the mandate of a) assessing and collecting tax on behalf of the Government of Lesotho (GOL), and b) administering and enforcing the revenue laws, which include the Customs and Excise, Income Tax and Value Added Tax. The LRA therefore collects inland taxes, duties and excise on behalf of the GOL and transfers the said to the GOL on a weekly basis.

1.1 Accounting policies

The annual financial statements incorporate the principal accounting policies set out below:

1.2 Basis of preparation

1.2.1 Statement of compliance

The financial statements are consistent with the International Financial Reporting standards (IFRS), as adopted by the International Accounting Standards Board and in compliance with the Lesotho Revenue Authority Act No. 14 of 2001.

1.2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

1.2.3 Functional and presentation currency

These financial statements are presented in Maloti, which is the Authority's functional currency. All financial information presented in Maloti has been rounded to the nearest loti.

1.2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

1.2.4.1 Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

- Note 11 – Plant and equipment (useful lives)

1.2.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the Authority's next financial statements are included in the notes.

1.2.4.3 Measurement of fair value

A number of the Authority's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Authority has established a control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Authority uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level I – Quoted prices (unadjusted) in active markets for identified assets or liabilities.
Level 2 – Inputs other than quoted prices included under Level I that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 – Inputs from assets and liabilities that are not based on observable market data (on-observable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about assumptions made in measuring fair values is included in note 15.5.

1.3 Adoption of standards in future financial periods

(a) New standards, amendments and interpretations which are relevant to the Authority's operations

- IFRS 16 *Leases* effective 1 January 2019, replaces IAS 17. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.

  The new standard could have a material impact on the Authority's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The Authority has not yet quantified the potential impact of the new standard on the Authority.

- IFRS 15 *Revenue Recognition*, effective 1 January 2018. IFRS 15 replaces IAS 18 *Revenue* and provides a single, principles-based five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation.

  The new standard could have a material impact on the Authority's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted.

- IFRS 13 *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP.

- IFRS 9 *Financial Instruments,* effective 1 January 2018, replaces IAS 39. The standard requires financial assets to be measured either at amortised cost or fair value depending on the business model under which they are held and the cash flow characteristics of the instrument.

  The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.

  The new standard could have a material impact on the Authority's financial statements. The Authority has not yet quantified the potential impact of the new standard on the Authority.

  Management is currently assessing the impact of the application of these new standards, amendments and interpretations on the Authority's financial statements in the period of initial application. At this time, the adoption of these standards and interpretations is only expected to have an impact on the classification and disclosure of items in the Authority's financial statements.

(b) New standards, amendments and interpretations which are not relevant to the Authority's operations

- IFRS 11 *Joint Arrangements* is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- IAS 27 (revised 2011), *Separate Financial Statements* includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 19 *Employee Benefits* was amended in June 2011. The impact on the Authority will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- Amendments to IFRS 7 *Financial Instruments: Disclosures* on derecognition – This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.
- Amendment to IFRS 1 *First-time Adoption*, on fixed dates and hyperinflation – These amendments include two changes to IFRS 1, "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRS', thus eliminating the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

- Amendment to IAS 12 *"Income Taxes"* on deferred tax – IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *"Investment Property"*. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 *"Income Taxes – Recovery of Revalued Non-Depreciable Assets"*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- Amendment to IAS 1 *"Financial Statement Presentation"* regarding other comprehensive income – The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

1.4 Property, plant and equipment

Owned assets recognition and measurement

Items of property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. Where parts of an item of furniture and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the Authority.

Depreciation

Depreciation is charged to comprehensive income on the straight-line basis over the estimated useful lives of each part of the relevant asset.

Rate of depreciating assets

The rates that assets are depreciated at on a monthly basis are as follows:

Category tangible assets	Useful life (in years)
Motor vehicles	5
Furniture and fittings	10
Office equipment	3 to 7
Specialised equipment	5
Security measures	5 to 10
Bins and containers	5
Emergency equipments	5 to 20
Buildings	50

The residual value, if not insignificant, is reassessed annually on tangible assets.

Category tangible assets	Useful life (in years)
Software (ETPM and ASYCUDA)	5

Impairment

The carrying amount of the Authority's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

1.5 Financial instruments

Non-derivative financial assets

The Authority initially recognises loans and receivable deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Authority is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

The Authority has the following non-derivative financial assets:

Trade and other receivables

Trade and other receivables are financial assets with fixed determinable payments that are not quoted on an active market. Such assets are recognised initially at fair value plus any directly attributed transactions costs. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management are included as part of cash and cash equivalents for the purposes of the statement of cash flows.

Non-derivative financial liabilities

Non-derivative financial liabilities are recognised initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Authority has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables, accruals and collection accounts at their nominal value.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably measured.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount owing to the Authority on terms that the Authority would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Authority considers evidence of impairment for receivables at both specific and collective levels. All individually significant receivables are assessed for specific impairment. All individually significant receivables found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Authority uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected as an allowance account against receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

1.6 Income

Income comprises the fair value of the consideration received or receivable for services in the ordinary course of the Authority's activities.

The Authority recognises income when the amount of income can be reliably measured, it is probable that future economic benefits will flow to the Authority and specific criteria have been met for each of the Authority's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The Authority bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Income comprises funds received from the GOL, interest on investments, storage income, grants and commission received during the period. Income is accounted for using the accrual basis of accounting and taking into the terms of relevant agreements. The GOL funded some of the projects which the LRA needed to implement in the current financial year whereas some needed donor assistance.

1.7 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted.

1.8 Finance income and finance costs

Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

1.9 Employee benefits

Short-term employee benefits

The costs of all short-term employee benefits are recognised during the year in which the employee renders related services. The provision for employee entitlements to wages, salaries, and annual sick leave represents the amount which the organisation has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on wage and salary rates.

Long-term employee benefits

The Authority is bound to two long-term benefits:

- The severance pay entitlement provided by section 79 of the Labour Code 1992. and
- The gratuity granted to contract staff on completion of their contracts.

The respective provisions for the above employee entitlements have been accounted for progressively under non-current liabilities at undiscounted amounts.

Gratuity payable within 12 months has been accounted for under current liabilities.

1.10 Foreign currency

Foreign currency translation

Transactions in foreign currencies are translated to the functional currency at exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the exchange rate at that date.

The foreign currency differences arising on translation are recognised in profit or loss.

1.11 Border post refurbishment

These are funds that the GOL has set aside for the refurbishment of other border posts. The money has been deposited into the Authority's accounts as it is the one which is leading the refurbishment project. The refurbishment costs have been capitalised as work in progress in the assets, and the funds received are treated as capital injection.

1.12 Government grant/assistance

Government grants/assistance are recognised when there is reasonable assurance that the entity will comply with the attached conditions. These grants are amortised over the useful lives of the respective assets.

Property, plant and equipment acquired from the proceeds of grants are depreciated in accordance with the Authority's property, plant and equipment accounting policy. Grants utilised to acquire property, plant and equipment are initially recognised as deferred grant and subsequently recognised in the statement of comprehensive income on a systematic and rational basis over the useful lives of the assets. Grants received to defray operating expenditure are recognised in the statement of comprehensive income when the expenditure has been incurred.

1.13 Financial risk management

The Board members have overall responsibility for the establishment and oversight of the Authority's risk management framework.

The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board members oversee how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority.

The Authority has exposure to the following risks from its use of financial instruments:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The LRA is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments as follows:

- Cash and cash equivalents – all deposits and cash balances are placed with reputable financial institutions.
- Staff debts are recovered in terms of the applicable policy and procedures directly from the employee's salary.

The Authority does not have significant credit risk exposure.

Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Authority manages its liquidity to ensure it is able to meet expenditure requirements. This is achieved through prudent liquidity risk management, which includes maintaining sufficient cash resources. Since the Authority is funded through Government subvention, it does not regard the liquidity risk to be high.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority may utilise foreign currencies in its operations and consequently may be exposed to exchange rate fluctuations that have an impact on cash flows and financing activities However, at year end there were no significant foreign currency exposures.

Interest rate risk

Financial instruments that are sensitive to interest rate risk are bank balances and cash. A 1% increase in interest rates would result in an additional surplus for the year while a decrease in interest rates by a similar margin would result in an equal opposite effect.

1.14 Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Authority determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Authority the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Authority separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Authority concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Authority's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Authority substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Authority's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance element is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

2. Property, plant and equipment

2.1 Tangible assets

Useful life (in years)	Owned assets	2019 Cost	2019 Accumulated depreciation	2019 Carrying amount	2018 Cost	2018 Accumulated depreciation	2018 Carrying amount
0	Land	60 496 390	–	60 496 390	60 496 390	–	60 496 390
20	Motor vehicles	11 403 380	(5 161 509)	6 241 871	11 998 545	(4 024 090)	7 974 455
10	Furniture and fittings	14 040 960	(10 987 145)	3 053 815	12 986 699	(10 201 937)	2 784 761
14 to 33	Office equipment	55 140 663	(48 715 856)	6 424 807	46 040 488	(42 184 787)	3 855 702
20	Specialised equipment	38 582 980	(24 838 712)	13 744 268	38 582 980	(17 893 776)	20 689 205
10 to 20	Security measures	1 496 163	(460 964)	1 035 199	1 301 484	(232 510)	1 068 974
2	Buildings	142 954 168	(64 497 503)	78 456 665	78 097 318	(62 362 561)	15 734 757
20	Bins and containers	544 779	(544 779)	0	544 779	(540 885)	3 894
20	Emergency equipment	5 136 396	(4 083 952)	1 052 444	5 136 396	(3 630 345)	1 506 051
	Managed assets work-in-progress						
	Border refurbishment	2 497 658	–	2 497 658	64 966 316	–	64 966 316
	IRMS (EDRMS and data cleansing)	–	–	–	35 218 103	–	35 218 104
	DCS customs	175 345	–	175 345	175 345	–	175 345
	LRA housing	157 237	–	157 237	157 237	–	157 237
	Assets work in progress	647 331	–	647 331	2 418 818	–	2 418 818
	Tax modernasation project	1 457 264	–	1 457 264	–	–	–
	LTMP counterpart	14 959 378	–	14 959 378	–	–	–
	Oracle upgrade	10 932 732	–	10 932 732	280 556	–	280 556
		360 622 824	(159 290 419)	201 332 405	358 401 453	(141 070 890)	217 330 565

2. Property, plant and equipment (continued)

2.1 Tangible assets (continued)

The carrying amounts of property, plant, and equipment can be reconciled as follows:

Useful life (in years)	Owned assets	2019 Carrying amount at 1/4/2018 M	Additions during the year M	Disposal/ reclassifi-cation during the year M	Depreciation for the year M	Movement between asset types M	Carrying amount at 31/03/2019 M
0	Land	60 496 390	–	–	–	–	60 496 390
20	Motor vehicles	7 974 456	–	–	17 32 584	–	6 241 872
10	Furniture and fittings	2 784 761	105	–	785 207	1 054 156	3 053 815
14 to 33	Office equipment	3 855 702	2 501 395	–	6 531 068	6 598 779	6 424 808
20	Specialised equipment	20 689 205	–	–	6 944 937	–	13 744 268
10 to 20	Security measures	1 068 974	–	–	228 453	194 679	1 035 199
2	Buildings	15 734 757	36 605	–	2 134 942	64 820 245	78 456 665
20	Bins and containers	3 895	–	–	3 895	–	(0)
20	Emergency equipment	1 506 051	–	–	453 607	–	1 052 444
	Managed assets						
	work-in-progress						
	Border refurbishment	64 966 316	3 008 282	–	–	(65 476 941)	2 497 657
	IRMS (EDRMS and data cleansing)	35 218 103	–	–	–	(35 218 103)	–
	DCS customs	175 345	–	–	–	–	175 345
	LRA housing	157 237	–	–	–	–	157 237
	Assets work in progress	2 418 818	667 324	–	–	(2 438 811)	647 331
	Tax modernisation project	–	1 457 264	–	–	–	1 457 264
	LTMP counterpart	–	15 078 979	–	–	(119 600)	14 959 378
	Oracle upgrade	280 556	10 652 177	–	–	–	10 932 732
		217 330 565	33 402 130	–	18 814 694	(30 585 596)	201 332 405

The carrying amounts of property, plant, and equipment can be reconciled as follows:

Useful life (in years)	Owned assets	2018 Carrying amount at 1/4/2017 M	Additions during the year M	Disposal/ reclassifi-cation during the year M	Depreciation for the year M	Movement between asset types M	Carrying amount at 31/03/2018 M
0	Land	60 496 390	–	–	–	–	60 496 390
5	Motor vehicles	6 838 833	2 677 644	–	1 542 020	–	7 974 456
10	Furniture and fittings	3 289 755	39 501	–	781 269	282 203	2 7 84 761
3 to 7	Office equipment	871 476	2 359 272	29 047	6 294 782	13 150 128	3 855 702
5	Specialised equipment	27 634 141	–	–	6 944 937	–	20 689 204
10 to 20	Security measures	(5 649)	57 800	–	15 813	1 032 636	1 068 974
50	Buildings	19 391 836	20 036	–	937 690	501 587	1 573 757
5	Bins and containers	29 750	–	–	25 853	–	3 897
5	Emergency equipment	194 414	487 941	–	657 463	1 481 160	1 506 052
	Managed assets						
	Work-in-progress						
	Border refurbishment	64 966 316	–	–	–	–	64 966 316
	EDRMS and data cleansing	647 89 721	8 726	–	–	(29 580 343)	35 218 103
	Scanners	–	–	–	–	–	–
	DCS customs	175 345	–	–	–	–	17 5 345
	LRA housing	157 237	–	–	–	–	157 235
	Assets work in progress	1 331 759	2 418 818	–	–	(1 331 759)	2 418 818
	Oracle upgrade	280 556	0	–	–	–	280 556
		250 441 879	8 069 737	29 047	17 199 827	(14 464 389)	217 330 565

2.2 Intangible assets

Useful life (in years)	Owned assets	2019 Cost	2019 Accumulated depreciation	2019 Carrying amount	2018 Cost	2018 Accumulated depreciation	2018 Carrying amount
5	Software (ETPM)	83 419 306	(50 051 584)	33 367 722	83 419 306	(33 367 722)	50 051 583
5	Software (EDRMS)	2 595 481	(2 422 449)	173 032	2 595 481	(1 903 353)	692 128
5	Software (ASYCUDA)	21 956 087	(13 905 523)	8 050 564	21 956 087	(9 514 305)	12 441 783
		107 970 874	(66 379 556)	41 591 318	107 970 874	(44 785 380)	63 185 494

The carrying amounts of intangible assets can be reconciled as follows:

		2019					
Useful life (in years)	Owned assets	Carrying amount at 1/4/2018 M	Additions during the year M	Disposal/ reclassification during the year M	Depreciation for the year M	Movement between asset types M	Carrying amount at 31/03/2019 M
5	Software (ETPM)	50 051 583	–	–	16 683 861	–	33 367 722
5	Software (EDRMS)	692 128	–	–	519 096	–	173 032
5	Software (ASYCUDA)	12 441 783	–	–	4 391 219	–	8 050 564
		63 185 494	–	–	21 594 176	–	41 591 318

The carrying amounts of property, plant, and equipment can be reconciled as follows:

		2018					
Useful life (in years)	Owned assets	Carrying amount at 1/4/2017 M	Additions during the year M	Disposal/ reclassification during the year M	Depreciation for the year M	Movement between asset types M	Carrying amount at 31/03/2018 M
5	Software (ETPM)	66 735 444	–	–	16 683 861	–	50 051 583
5	Software (EDRMS)	–	–	–	–	–	692 128
5	Software (ASYCUDA)	16 833 000	–	–	4 391 218	–	12 441 783
		83 568 445	–	–	21 075 079	–	63 185 494

Note
The prior year balances in the AFS were adjusted to reflect the comparatives as there were assets from the EDRMS and Border Refurbishment Projects that were capitalised in the current financial year but relate to the 2017/2018 financial year.

3. Accounts receivable

	March 2019 M	March 2018 M
Deposit	257 611	257 611
Prepayments	1 129 548	1 189 532
Accrued income	662 959	445 196
Accrued interest	0	38 730
Accounts receivable	27 240	27 240
Other debtors	6 900	6 900
	2 084 258	1 965 209

4. Bank and cash

	March 2019 M	March 2018 M
LRA operating account	(234 804)	123 336
88 day deposit account – Nedbank	852 773	21 168 944
Other short-term deposits	30 892 095	66 287 764
LRA call account	13 119 066	2 453 801
Money market	20 200 896	0
IRMS account	0	427 469
Border refurbishment project account	3 446 288	373 932
Tax Modernisation Project	359 487	0
Tax Modernisation Counter Part	1 725 388	0
Cash on hand	83 706	94 445
Mascon development fund	3 108 688	2 508 309
	73 553 583	93 437 998

5. Collection accounts

	March 2019 M	March 2018 M
LRA refund account	1 300 937	26 185 647
VAT call account	42 754	104 579
VAT current account	7 029 169	14 576 599
Income tax call account	1 362 135	1 270 242
Income tax current account	3 012 620	27 65 302
Income tax refund account	4 314 411	4 369 133
Toll fees current account	5 773 226	4 237 944
	22 835 253	53 509 446
SACU accounts		
Current account	725 527	(198 583)
Customs call account	164 568 640	107 374 768
	165 294 167	107 176 184
Net balance	188 129 420	160 685 630

The above accounts represent monies collected on behalf of GOL and SACU and transferred to the respective institutions.

6. Government funding

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance) and the Lesotho Revenue Authority provided for the transfer of all assets (non-movable and movable) free of charge , previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the Lesotho Revenue Authority. These assets have been revalued by Lethola Cost Associate.

7. Trust account (rental income Mascon)

This is rental income received from the Maseru Station and Container Terminal site (Mascon). The Ministry of Works and LRA agreed to charge rent for usage of this site. The funds are put in a trust account which will be used to develop that site in future.

		Opening balance M	Additions M	Utilised during the year M	Reversal during the year M	Closing balance M
8.	**Reconciliations of provision**					
	2019					
8.1	Gratuity	16 118 460	10 371 519	(16 502 527)	–	9 987 452
	Severance pay	17 068 256	8 669 091	(6 932 178)	–	18 805 170
	Total	33 186 716	19 040 611	(23 434 705)	–	28 792 622
8.2	Leave	3 540 504	69 269 360	(66 486 572)	–	6 323 291
	Total	3 540 504	69 269 360	(66 486 572)	–	6 323 291
	2018					
	Gratuity	8 104 336	8 907 007	(892 883)	–	16 118 460
	Severance pay	13 297 991	9 777 288	(6 007 023)	–	17 068 256
	Total	21 402 327	18 684 295	(6 899 907)	–	33 186 716
	Leave	3 300 935	6 324 020	(613 802)	(5 470 648)	3 540 504
	Total	3 300 935	6 324 020	(613 802)	(5 470 648)	3 540 504

		March 2019 M	March 2018 M
9.	**Long-term liability**		
	Payable to Bank	3 478 258	5 690 869
		3 478 258	5 690 869
10.	**Current loan liability**		
	Payable to Bank	2 576 014	2 361 346
		2 576 014	2 361 346
11.	**Accounts payable and accruals**		
	Creditors	3 618 684	4 014 172
	Accruals	14 301 696	10 283 717
	LTMP AfBD	1 680 000	–
	Other creditors	18 386 739	412 480
		37 987 120	14 710 369
		44 041 391	22 764 602

12. Contingent liabilities

A number of companies and individuals have sued the Lesotho Revenue Authority over the last several years for various matters. Management has made an assessment of the possible liability as a result of these pending cases. The total exposure has been estimated at M3.8 million.

		March 2019 M	March 2018 M
13.	**(Deficit)/surplus for the year**		
	Deficit for the year is stated after charging the following:		
	Depreciation	40 408 870	38 274 906
	Board fees and expenses	2 336 987	1 217 425
		42 745 857	39 492 331
14.	**Material related party transactions**		
	Government of Lesotho		
	Government funding	372 240 000	379 390 643
	Board fees and expenses	2 336 987	1 217 425
		374 576 987	380 608 068

15. Financial instruments

Exposure to currency, interest rate and credit risk arises in the normal course of the Authority's business.

15.1 Currency risk

At the balance sheet date there were no balances that were exposed to exchange rate fluctuations.

15.2 Interest rate risk

The Authority does not limit its risk in respect of interest rate changes. Accordingly, interest rate fluctuations will directly impact on the Authority's results. At the balance sheet date, however, there were no significant balances that were exposed to interest rate fluctuations.

15.3 Credit risk

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date there were no concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

15.4 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of any netting agreements:

	Carrying amount M	Contractual cash flows M	Within 1 year M	Between 2 and 5 years M
31 March 2019				
Financial liabilities:				
Borrowings	6 054 272	2 576 014	2 576 014	3 478 258
Trade and other payables	232 439 831	232 439 831	232 439 831	–
	238 494 103	238 494 103	238 494 103	3 478 258
31 March 2018				
Financial liabilities:				
Borrowings	8 052 215	2 361 346	2 361 346	5 690 869
Trade and other payables	178 936 503	178 936 503	178 936 503	–
	186 988 718	181 297 849	181 297 849	5 690 869

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at a significantly different amount.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019 M	2018 M
Loans and receivables	2 084 258	1 965 209
Cash and cash equivalents	261 683 004	254 123 628
	263 767 262	143 418 152

15.5 Fair values

The fair values of all financial instruments are substantially identical to the carrying amounts reflected in the balance sheet.

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Loans and receivables M	Other financial liabilities M	Total carrying amount M	Fair value M
Financial liabilities				
Trade and other payables	178 936 503	–	178 936 503	178 936 503
Borrowing	6 054 271	–	6 054 271	6 054 271
	184 990 774	–	184 990 774	184 990 774
Financial assets				
Trade and other receivables	2 084 258	–	2 084 258	2 084 258
Cash and cash equivalents	261 683 004	–	261 683 004	261 683 004
	263 767 262	–	263 767 262	263 767 262

16. Prior year adjustments M147 877

These adjustments were for transactions that relate to 2017/18 and earlier financial years but materialised in the current period under review as follows:

- Reversal of March 2018 accrued invoices (M83 850.00).
- Reversals of the previous payroll transactions (M64 027.00).

17. Grants amortised

During the year, the LRA capitalised the projects that were government funded namely ETPM, ASYCUDA, EDRMS and Border Refurbishment (Caledonspoort Border) which were under work in progress before they were capitalised, and the monies received are being amortised over the useful lives of the assets, below relates to current year charge

Staff commemorating LRA Day

LRA holds the first Tax Expo dubbed Lekhetho Khotla

Bidding farewell to LRA staff under voluntary separation during structure alignment to strategy

Staff engaged under Youth Development Program

Commissioner General and the EXCO visiting Van Rooyen's border post staff as part of staff engagements

Board members receiving certificate after participating at the Risk and Governance Training

Rea Aha Strategy roll-out session in the Northern Region


LRA tug of war team during 2018/2019 Inter-Revenue games in Malawi


Rea Aha Strategy roll-out session with the law enforcement agencies


Signing of MoU to launch second phase of Bacha Entrepreneurship project


Consultation with Indian Business Community


LRA hosts VADA


Staff engagement session at Mohale's Hoek Service Center


Oriental Business Community attending LRA stakeholder engagement session

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