

INVENTORY AND STOCK MANAGEMENT POLICY



THABA CHWEU LOCAL MUNICIPALITY

Council Approval Date: _____

Resolution no: _____

NO	TABLE OF CONTENTS	PAGE
1.	BACKGROUND	3
2.	OBJECTIVE OF THE POLICY	3
3.	DEFINITIONS	3-4
4.	SCOPE	5
5.	LEGAL FRAMEWORK	5
6.	ACCOUNTABILITY	5
7.	INVENTORY PROCEDURES	5-10
8.	INVENTORY RECORDS	10
9.	REPORTING	10-11

ANNEXURE A: HANDING-OVER CERTIFICATE-----	12
ANNEXURE B: INVENTORY COUNT CERTIFICATE-----	13-14
ANNEXURE C: BIN CARDS-----	15
ANNEXURE D: SPECIMEN SIGNATURES OF ALL PERSONS AUTHORIZED TO SIGN REQUISITIONS-----	16

1. BACKGROUND

- 1.1. The stores and stock management function shall be centralised and will operate under the control of the Manager: Supply Chain Management.
- 1.2. The Manager: Supply Chain Management shall ensure proper financial control, uphold the principle of effective administration, proper stock holding and control, a high standard of service levels as well as product standardisation and ensuring good quality of products.

2. OBJECTIVE OF THE POLICY

- 2.1. The policy aims to achieve the following objectives which are to: -
 - a) Ensure continued availability of materials for rendering services to the community, by following due processes and procedures that are consistent with Council's Supply Chain Management Policy and other applicable legal and policy frameworks.
 - b) Provide guidelines that employees of the Municipality must follow in the management and control of inventory, including safeguarding and disposal of inventory.
 - c) Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
 - d) Eliminate any potential misuse of inventory and possible theft.

3. DEFINITIONS

3.1. In this Policy, unless the context indicates otherwise, the following definitions are applied: -

- “Accounting officer”** means the Municipal Manager for the Municipality as contemplated in section 60 of the Local Government: Municipal Finance Management Act, 56 of 2003
- “CFO”** means the Chief Financial Officer designated in terms of section 80(2)(a) of the Local Government: Municipal Finance Management Act, 56 of 2003
- “Cost”** shall comprise costs of purchase, costs conversion and other costs incurred in bringing the inventories to their present location and condition.
- “Delegated authority”** means the official who is given the authority for relevant functions in terms of the municipality’s written delegations.
- “Good Received Note”** means a physical document completed and captured on the system to acknowledge the receipt of goods in good condition and correct quantities.
- “Inventories”** are assets:
In the form of material or supplies to be consumed in the production process,
In the form of materials or supplies to be consumed or distributed in the rendering of services.
Held for sale or distribution in the ordinary course of operations, or
In the process of production for sale or distribution.
- “Supply Chain Manager”** shall mean the person appointed as Supply Chain Manager.
- “Municipality”** shall mean the Thaba Chweu Local Municipality.
- “Obsolete inventory”** means items that have expired, are redundant or damaged.
- “Re-order level”** means the level of inventory at which inventory is re-ordered.
- “Requisition form”** means a written request to the inventory Supervisor to supply specified inventory.

“Responsible manager” means the official responsible for the budget of an organizational unit in the municipality, directorate, or institution.

“Store” means a place where inventory is stored and reserved for future use, or a source from which supplies may be drawn.

“Accountant Stores

Logistics” responsible for overseeing the daily **operations** of a store, making sure it runs smoothly and effectively and inventory audits, and maintaining reports of purchases and pricing. To be successful in this role, you should be familiar with supply chain procedures and have good communication skills to interact with vendors, clients, and internal teams.

“Stores Logistics Clerk” means the official responsible for the requisition, receipt, issue, recording, safeguarding of inventory and cost-effective and efficient management of inventory.

4. SCOPE

- 4.1. This policy applies to the Municipality’s inventory received by the Store man and issued to users.
- 4.2. This policy specifically excludes:
 - a) livestock inventory and
 - b) Equipment and other assets not defined as inventory.

5. LEGAL FRAMEWORK

In terms of the MFMA, the Accounting Officer for a municipality must:

- a) Be responsible for the effective, efficient, economical, and transparent use of the resources of the municipality as per section 62 (1) (a);
- b) Take all reasonable steps to prevent unauthorised, irregular, and fruitless and wasteful expenditure and other losses as per section 62(1)(d);
- c) Be responsible for the management, including the safeguarding and the maintenance of the assets, and for the management of the liabilities, of the municipality as per section 63 (1) (a) and (b).

6. ACCOUNTABILITY

In accordance with section 62(1)(c) of the Municipal Finance Management Act (Act 56 of 2003), referred to as the MFMA, the accounting officer of the Municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial and risk management and internal control.

7. INVENTORY PROCEDURES

7.1. The procedures for inventory must be followed to ensure that:

- a) Inventory is safeguarded at all times.
- b) There are accurate records of quantities on hand at all times.
- c) Optimum inventory levels are maintained to meet the needs of users.
- d) Only authorised issues of inventory are made to users; and
- e) Items placed in store are secured and only used for the purpose for which they were purchased.

7.2. APPOINTMENT OF RESPONSIBLE OFFICIALS

7.2.1. The CFO must appoint, in writing, officials to perform the duties of a Stores Logistics Clerk in terms of this Policy.

7.2.2. Adequate segregation of duties between the requisition, receipt, recording, storage and safekeeping of inventory and the management and control thereof must be maintained to avoid the potential occurrence of errors and fraud.

7.3 ORDERING OF INVENTORY

7.3.1. Due diligence and care shall be exercised in identifying low value and high value items of inventory.

7.3.2. Minimum inventory level of high value items shall be ordered, any maximum order shall be based on specific requirement/need in order to avoid large amount of cash tied up in inventory.

7.3.3. A re-order listing should be printed by the Store man and reviewed weekly by the Supply Chain Manager.

- 7.3.4. A copy of the purchase order form will then be forwarded by the procurement department to the receiving department, for the receiving Stores Logistics Clerk to match the goods received against the order once goods are delivered.
- 7.3.5. Orders must thereafter be filed in date sequence.
- 7.3.6. This file must form the basis for follow up of orders and for matching goods that are delivered to inventory department.
- 7.3.7. The orders file should be reviewed weekly by the Accountant Stores Logistics and any orders, which have not been delivered as per the agreement with the buyer, must be followed up immediately.

7.4. RECEIPT OF INVENTORY

- 7.4.1. The quantity and quality of the inventory received from suppliers must be according to specifications and information on the order form.
- 7.4.2. The Stores Logistics Clerk must compare the delivery note to the purchase order before accepting the goods.
- 7.4.3. The invoice or delivery note must match the supplier name and order number.
- 7.4.4. The Stores Logistics Clerk must create an electronic Goods Received Note on the system to record all the inventory items delivered in good condition.
- 7.4.5. The Stores Logistics Clerk must ensure that:
- a) All delivery notes and or invoices are signed by him/her and the driver
 - b) All incorrect delivery items are rejected and clearly identified on both copies of the delivery note and or invoice; and
 - c) The supplier signs all amendments.
- 7.4.6. The inventory received must then be transferred to the secured store by the general worker.
- 7.4.7. The inventories must be stored in their respective sections once they have been received as detailed in 7.5.
- 7.4.8. The inventory record/register/database or system must be updated on the day, the goods are received, by the Stores Logistics Clerk and authorized on the system by the Accountant Stores Logistics.

7.5. STORAGE OF INVENTORY

- 7.5.1 Inventory must be stored in a secured, exclusive use area, under lock and key, furthermore the inventory must be insured in terms of

the Risk Management Policy of the municipality.

- 7.5.2 The area must be used exclusively for the storage of inventory, with limited authorised access only.
- 7.5.3. Inventory must be positioned to facilitate efficient handling and checking.
- 7.5.4. All items must be stored separately, with proper segregation.
- 7.5.5. Inventory must be clearly labelled for easy identification. Inventory tag/bin cards or inventory labels may be used to identify each item and to aid in the physical verification of the items.
- 7.5.6. Where possible, all items of the same type and reference must be stored together as per the description on the inventory records.
- 7.5.7. Items with limited shelf life must be rotated on a first in first out basis, to reduce the occurrence of expired or obsolete stocks.
- 7.5.8. Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.
- 7.5.9. Due regard must be given to any safety standards which may apply to the storage of certain inventories.
- 7.5.10. Steps must be taken to ensure safe custody of items, including precautions against loss or theft.
- 7.5.11. The Stores Logistics Clerk or Delegated Official responsible for the custody and care of inventory must ensure that in his/her absence, such items, where applicable are securely stored.
- 7.5.12. The responsibility for the custody of the storeroom keys must be allocated by the delegated authority to an official who is accountable for its use.
- 7.5.13. No unauthorised persons/officials shall obtain entry to premises, buildings, or containers where inventory is kept, unless accompanied by the responsible official.
- 7.5.14. Whenever a change or/ leave in store personnel occurs, an inventory count must be conducted.
- 7.5.15. An independent official shall be nominated in writing by the delegated authority to assist Internal Audit with the handing and taking over with the checking of the inventory and any discrepancies.
- 7.5.16. Should the above not be complied with, the official taking over shall be liable for any discrepancies.

7.5.17. A handing-over certificate, attached here to as Annexure B, must be completed by the handing and taking over officials and a copy retained for record purposes.

7.5.18. The following fire protection precautions must be adhered to:

- a) Inventories of an inflammable or dangerous nature shall be stored and handled in such a manner that persons or property are not endangered and in compliance with the requirements of any local authority.
- b) The area must be clearly signposted; and
- c) Fire extinguishing equipment must be placed in the area where inventories are held and must be serviced regularly.

7.6. ISSUING OF INVENTORY

7.6.1. Only the **store personnel** are authorised to issue inventory from the storeroom.

7.6.2. Inventory must only be issued in terms of the approved requisition form of the Municipality.

7.6.3. All requisition forms must be ruled off immediately below the last item to prevent items being added once the requisition is authorised by the responsible manager.

7.6.4. The official receiving the inventory must acknowledge the receipt of stock items requested, by signing on the requisition for goods received.

7.6.5. Inventories must be issued and used for official purposes only.

7.6.6. The store personnel must capture the requisition on the system and then it must be authorized by the Accountant Stores Logistics.

7.7. OBSOLETE INVENTORY

7.7.1. The preparatory work for the disposal of obsolete inventory must be undertaken by the Accountant Stores Logistics and verified by the Supply Chain Manager.

7.7.2. The Accounting Officer or delegated authority must approve the disposal of obsolete inventory.

7.7.3. The delegated authority may approve the write-off of inventory, if satisfied that:

- a) The inventory has expired and is redundant.
- b) The inventory is of a specialised nature and has become outdated due to the introduction of upgraded and more effective products.

- c) The inventory cannot be used for the purpose for which it was originally intended; or
- d) The inventory has been damaged and is rendered useless.

7.7.4. All disposed of items must be updated in the inventory records/register/database for the purposes of proper management and control.

7.8. INVENTORY COUNT

7.8.1. Items may be subject to an inventory spot count on a monthly basis.

7.8.2. Inventory counts may be carried out monthly basis with a bi-annually inventory count and at the end of each financial year.

7.8.3. All approved Municipal procedures and processes must be complied with during the inventory count.

7.8.4. The Accountant Stores Logistics must use document in Annexure C and report to the CFO after investigating any discrepancies between the inventory records/register/database, bin/tag cards or inventory labels and the physical inventory.

7.8.5. The CFO must submit a report with the findings to the Accounting Officer, in order to have the matter reported to the Executive Committee of the Municipality for the write-off of any inventory losses, or the write –up of surpluses.

7.8.6. Appropriate disciplinary action must be instituted when applicable.

7.8.7. The inventory record, register, database or system must be updated accordingly.

8. INVENTORY RECORDS

8.1. An inventory record/register/database must be maintained for all inventory items, either manually and / or electronically.

8.2. All relevant information must be included for the proper management and control of all inventory items. It is recommended that details include but are not limited to:

- a) Order number/date
- b) Item description
- c) Quantity and value of stock on hand
- d) Quantity and value of stock received
- e) Quantity and value of stock issued

- f) Re-order level
- g) Optimum inventory level
- h) Quantity and value of obsolete stock; and
- i) Opening/closing balance.

8.3 An inventory register/database must be printed monthly and the hard copy filed in a chronological order to maintain a proper audit trail.

9. REPORTING

9.1. A report must be submitted at each stock count to the Chief Financial Officer and/or the Responsible Manager detailing the following:

- a) Any inventory shortages or surpluses and the reasons for such,
- b) Any inventory deficits proposed to be written-off; and
- c) Any obsolete inventory items.

9.2. Inventories purchased during the financial year must be disclosed at cost in the disclosure notes of the Annual Financial Statements of the Municipality.

9.3. In terms of GRAP 12 the financial statements shall disclose:

- a) the accounting policies adopted in measuring inventories, including the cost formula used,
- b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity,
- c) the carrying amount of inventories carried at fair value less costs to sell,
- d) the amount of inventories recognized as an expense during the period,
- e) the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph .43,
- f) the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as an expense in the period in accordance with paragraph .43,
- g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph .43, and
- h) the carrying amount of inventories pledged as security for liabilities.

ANNEXURE A: HANDING-OVER CERTIFICATE

I certify that this is a true statement of inventory as per stock report attached hereto and that inventory has been duly accounted for.

Signature of official handing over inventory: _____

Designation : _____

Date : _____

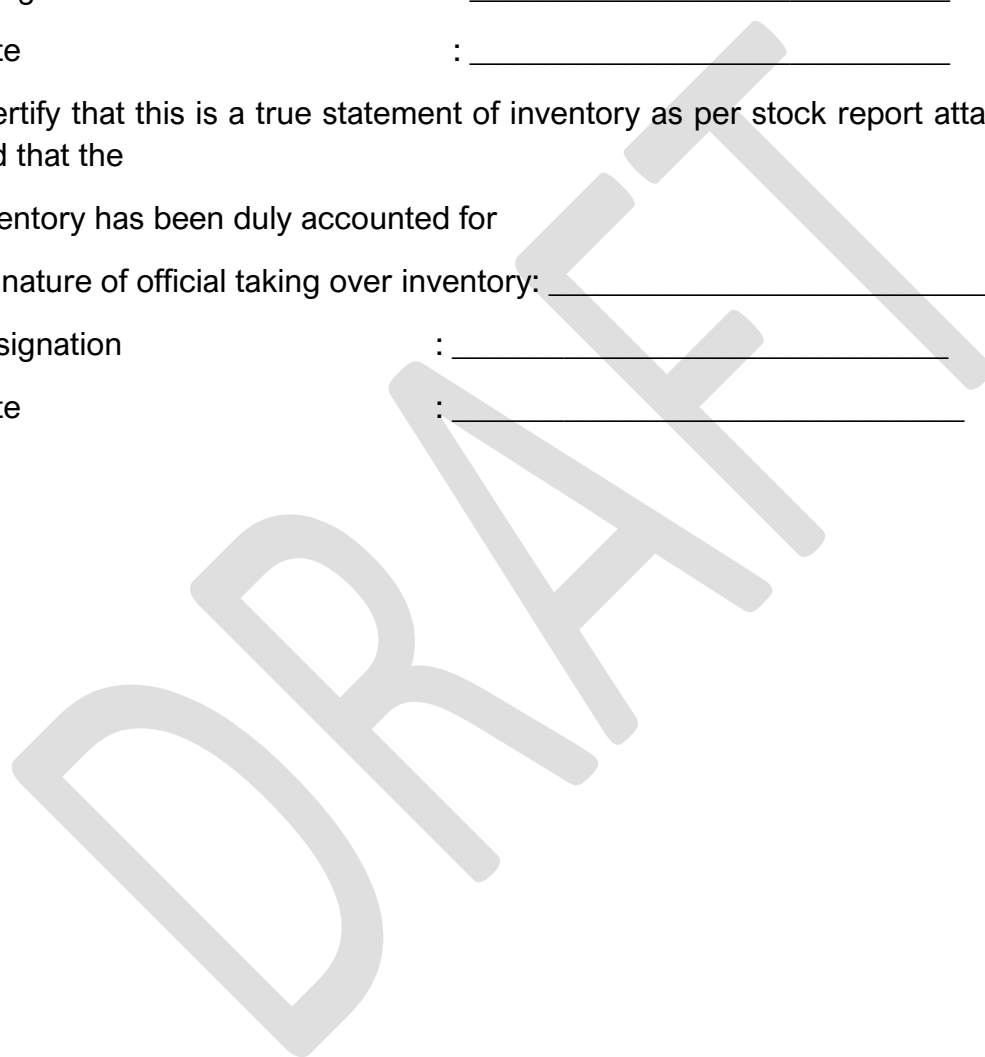
I certify that this is a true statement of inventory as per stock report attached hereto and that the

inventory has been duly accounted for

Signature of official taking over inventory: _____

Designation : _____

Date : _____



ANNEXURE B: INVENTORY COUNT CERTIFICATE

Reference:_____

Enquiries:_____

Date:_____

FINANCIAL DEPARTMENT

Attention: Chief Financial Officer

INVENTORY COUNT FOR THE PERIOD: __ T _____

This is to certify that the quarterly inventory count has been undertaken for all items.

The under-mentioned discrepancies were found:

1. SURPLUS INVENTORY

DESCRIPTION OF ITEM QUANTITY VALUE

NO	DESCRIPTION OF ITEM	QUANTITY	VALUE
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

The following factors gave rise to the surplus items:

ANNEXURE B (CONT.)

2. DEFICIT INVENTORY

	DESCRIPTION OF ITEM	QUANTITY	VALUE
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Total value of issues for the period, _____ and the value of R _____

The following factors gave rise to the deficit items:

We certify that an inventory count of items was undertaken by:

1.Name: _____ Rank: _____ Signature: _____

2.Name: _____ Rank: _____ Signature: _____

3.Name: _____ Rank: _____ Signature: _____

HEAD OF DEPARTMENT

DATE

ANNEXURE C: BIN CARDS

BIN CARDS

					ISSUING									
					Date	Req No	Quantity	Balance/ Signature	Date	Req No	Quantity	Balance/ Signature		
MIN	MAX	RECEIVING												
Date	Supplier	Order Number	Total Cost	Quantity/ Signature										

ANNEXURE E: SPECIMEN SIGNATURES OF ALL PERSONS AUTHORIZED TO SIGN REQUISITIONS.

Name & Surname	Designation	Employee number	Signature (1)	Signature (2)	Signature (3)