



# **OKHAHLAMBA MUNICIPALITY INVENTORY MANAGEMENT POLICY**

**(2019/2020)**



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## 1. DEFINITIONS

1.1 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. Accounting officer as per MFMA is responsible for the estimates usually the permanent secretary government department

- Proper implementation
- Preparing and presenting the reports
- Keeping stock up to date
- Laying down accounting rules and methods of the warehouse
- Validating the inventory system
- Authorizing officer to supply justify inventory information.

As a general rule the accounting officer is alone empowered to manage monies and others assets. Shall be responsible for their safekeeping.

### ***“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. Senior management responsible for overseeing the financial activities of an entire organisation

- Create a Solid Financial Plan
- Oversee the accounting and others process
- Reports and measure performance

### ***“Delegated authority”***

means the process of assigning work to another person along with the appropriate level of authority to complete the work. Delegation typically flows from management to their direct and reports. Basic management technique that flows for efficiency, resilience and development of team members.

- Functions
- Decision Making
- Negotiation
- Strategy
- Research and analysis

### ***“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

**“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 for goods or services made by head of department or accounting officer in a department that is responsible for issuing for stock items. If the request is approved, that entity will receive any item that is requested, a requisition is also known as a purchase requisition. Requisition are usually submitted in a standardized format on a paper form, task involved and reduces duplication. Requisition form must include the details about item(s) requested and date of request. In the other contexts requisition means a formal request/demand which might be.

**“Store”**

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

**“Accountant Assets”**

means the official responsible for the requisition, receipt, issue, recording and safeguarding of inventory; and

**“Stores Administrator”**

means the official responsible for the cost-effective and efficient management of inventory, connected with organizing and supervising stores/ warehouse that an organization functions.

## 2. OBJECTIVE OF THE POLICY

2.1 The policy aims to achieve the following objectives which are to:-

- a) Provide guidelines that must be followed in the management and control of inventory, including safeguarding and disposal of inventory.
- b) Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
- c) Eliminate any potential misuse of inventory and possible theft.

## 3. SCOPE

3.1 This policy applies to OKHAHLAMBA MUNICIPALITY's inventory section of the department of finance.

3.2 This policy specifically excludes:

- a) Pharmaceutical inventory, livestock and face value forms; and
- b) Equipment and other assets not defined as inventory;

## 4. LEGAL FRAMEWORK

4.1 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).

4.2 **In terms of the following paragraph of GRAP 12:**

.14 Inventories shall be recognized as an asset if, and only if,

- a) it is probable that future economic benefits or service potential associated with the item will flow to the entity ,and
- b) the cost of the inventories can be measured reliably

### MEASUREMENT AT RECOGNITION

.15 Inventories that qualify for recognition as assets shall initially be measured at cost

- .16 Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition

### **MEASUREMENT AFTER RECOGNITION**

- .17 Inventories shall be measured at the lower of cost and net realization value, except where paragraph .18 applies
- .18 Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
- a) distribution at no charge or for a nominal charge ,or
  - b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

### **RECOGNITION AS AN EXPENSE**

- .43 When inventories are sold, exchanged or distributed the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write –down of inventories ,arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.
- .44 Some inventories may be allocated to other assets accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to other assets in this way are recognized as an expense during the useful life of that asset.

## **5 PURPOSE OF THE INVENTORY PROCEDURES**

- 5.1 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.

### **5.1.1 Inventory Procedure: Acquisitions**

The store's manager in our case the Accountant Assets will complete a procurement request form (PRF). The section head (Finance Manager) and the Head of Department (CFO) will approve the requisition.

PRF will be sent to Supply Chain Management.

SCM will obtain the quotes and place the orders.

Orders will be received by the store's manager (Accountant: Assets and he/she must keep records of the original delivery note and forward the copy of the delivery note to the Creditors together with the GRN.

The store's manager (Accountant: Assets) will complete the goods received note and forward it to the creditors.

Creditors will attach the GRN to the Original order with the copy of the delivery note and capture the receipts into the financial system.

### **5.1.2 Inventory Procedure.**

Maintenance stores

- The purpose of the stock take is to ensure that reconciliations between manual system (bin Cards) and the electronic system are fully reconciled and
- To eliminate discrepancies in stock items, fraud and corruption.
- The procedure for conducting the stock count
- Quality control procedures throughout the year
- Disclosures

### **5.1.3. Distribution**

- A stores requisition will be completed for all issues from stores.

## **5.2 Appointment of Responsible Officials**

5.2.1 The CFO must appoint, in writing, officials to perform the duties of an Accountant Assets and Stores Administrator in terms of this Policy.

5.2.2 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.

## **5.3 Ordering of Inventory**

5.3.1 Each department must set its own Inventory reorder levels for all items in consultation with the CFO, the inventory levels must indicate the minimum and maximum inventory that can be maintained.

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

5.3.3 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 on inventory.

5.3.4 A reorder listing should be printed daily and reviewed by the Accountant: Assets



- 5.3.5 The Accountant must use the listing as a primary source of information to complete the requisition form.
- 5.3.6 The requisition form must be completed in duplicate, with one copy kept in the requisition book and an original copy forwarded to the procurement section.
- 5.3.7 A copy of the purchase order form will then be forwarded by the procurement department to the inventory department.
- 5.3.8 Orders must thereafter be filed in date sequence.
- 5.3.9 This file must form the basis for follow up of orders and for matching goods that are delivered to inventory section.
- 5.3.10 the orders file should be reviewed daily by the Asset Accountant and any orders, which have not been delivered as per the agreement with the buyer, must be followed up immediately.

#### **5.4 Receipt of Inventory**

- 5.4.1 The quantity and quality of the inventory received from suppliers must be according to specifications.
- 5.4.2 The Stores Administrator must compare the delivery note to the purchase order before accepting the goods.
- 5.4.3 The invoice must match the supplier name and order number.
- 5.4.4 Inventory Supervisor (as per deployment) must ensure that:
  - a) All delivery notes are signed
  - b) All incorrect delivery items are rejected and clearly identified on both copies of the delivery note;  
And
  - c) The supplier signs all amendments
- 5.4.5 The inventory received must be transferred to the secured store by the Inventory Supervisor and the inventories must be stored in their respective sections as detailed in 5.5.
- 5.4.6 The inventory record/register/database must be updated.

#### **5.5 Storage of Inventory**

- 5.5.1 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.
- 5.5.2 The area must be used exclusively for the storage of inventory, with limited authorized access only.
- 5.5.3 Inventory must be positioned to facilitate efficient handling and checking.
- 5.5.4 All items must be stored separately, with proper segregation.
- 5.5.5 Inventory must be clearly labeled 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. Details should include the following:
  - a) Order number

- b) Quantity received
- c) Date of receipt
- d) Quantity issued;
- e) Date of issue;
- f) Maximum stock level;
- g) Re-order level;
- h) Re-order quantity;
- i) Closing stock; and
- j) Any other relevant information.

- 5.5.6 Where possible, all items of the same type and reference must be stored together as per the description on the inventory records.
- 5.5.7 Items with limited shelf life must be rotated on a first in first out basis, in accordance with paragraph .35 of GRAP, to reduce the occurrence of expired or obsolete stocks.
- 5.5.8 Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.
- 5.5.9 Due regard must be given to any safety standards which may apply to the storage of certain inventories.
- 5.5.10 Steps must be taken to ensure safe custody of items, including precautions against loss or theft.
- 5.5.11 The Stores Administrator 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.
- 5.5.12 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.
- 5.5.13 No unauthorized persons/officials shall obtain entry to premises, buildings or containers where inventory is kept, unless accompanied by the responsible official.
- 5.5.14 Whenever a change in Accountant: Assets or Stores Administrator occurs; an inventory count must be conducted.
- 5.5.15 An independent official shall be nominated in writing by the delegated authority to assist the official handing and taking over with the checking of the inventory and any discrepancies.
- 5.5.16 Should the above not be complied with, the official taking over shall be liable for any discrepancies.
- 5.5.17 A handing-over certificate, must be completed by the handing and taking over officials and a copy retained for record purposes.
- 5.5.18 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.

## **5.6 Issue of Inventory**

- 5.6.1 Only the Stores Administrator is authorised to issue inventory from the storeroom
- 5.6.2 Inventory must only be issued in terms of the approved requisition form of the Municipality.
- 5.6.3 All requisition forms must be ruled off immediately below the last item to prevent items being added once the requisition is authorized by the responsibility manager.
- 5.6.4 The Stores Administrator must verify that items ordered match items reflected on the requisition form.
- 5.6.5 The official receiving the inventory must acknowledge in writing, the receipt of inventory.
- 5.6.6 Inventories must be issued and used for official purposes only.

## **5.7 Obsolete inventory**

- 5.7.1 The preparatory work for the disposal of obsolete inventory must be undertaken by the Stores Administrator and endorsed by the Accountant: Assets.
- 5.7.2 The Accounting Officer or delegated authority must convene a Disposal Committee for the disposal of obsolete inventory.
- 5.7.3 The Disposal Committee should consist of at least four officials, one of whom must act as the chairperson.
- 5.7.4 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 specialized 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.
- 5.7.5 All disposed of items must be updated in the inventory records/register/database for the purposes of proper management and control.

## **5.8 Inventory count**

- 5.8.1 Items may be subject to an inventory count on a monthly basis.
- 5.8.2 Where the quantity of inventory is too large for the count to be completed on a single occasion, inventory counts may be carried out on a rotational basis with a full inventory count at the end of each financial year.
- 5.8.3 All approved Municipal procedures and processes must be complied with during the inventory count.
- 5.8.4 The Accountant: Assets must document 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.
- 5.8.5 The CFO must submit a report with the findings to the Assistant Manager Finance: Assets, in order to have the matter reported to the Executive Committee of the Municipality for the write-off of any inventories losses, or the write –up of surpluses.
- 5.8.6 The appropriate disciplinary action must be instituted when applicable.
- 5.8.7 The inventory record/register/database must be updated accordingly.

## **6 INVENTORY RECORDS**

- 6.1. An inventory record/register/database must be maintained for all inventory items, either manually and / or electronically.
- 6.2 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
  - l) Opening/closing balance.
- 6.3 An inventory register/database must be printed monthly and the hard copy filed in a chronological order to maintain a proper audit trail.

## **7. REPORTING**

- 7.1 A report must be submitted at least quarterly to the Chief Financial Officer and/or the Responsibility 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.
- 7.2 Inventories purchased during the financial year must be disclosed at cost in the disclosure notes of the Annual Financial Statements of the Municipality.
- 7.3 In terms of GRAP 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.

**8 POLICY ADOPTION**

This policy has been considered and approved by the Council of **Okhahlamba Municipality**

On this day..... of ..... 2018

**PROCEDURES FOR ORDERING, MINTAINING, RECEIPT, ISSUING AND DISPOSAL OF STOCK**

| NO  | PROCEDURE  | FREQUENCY |
|-----|--|-----------|
| 1   | <p><b>ORDERING OF INVENTORY</b></p> <p>1.1 Stores reorder levels must be set for all items by the store's manager which will be as follows:<br/>           Reorder Level<br/>           Maximum Level<br/>           Minimum Level<br/>           Emergency Level</p> <p>1.2 A Reorder listing should be printed weekly and reviewed by the store controller before purchase order can be completed</p> <p>1.3 A store controller must use listing as a primary source of information to complete the purchase form</p> <p>1.4 A copy of the purchase order form will then be forwarded by the store controller to the receiving clerk.</p> <p>1.5 The order must be matched to the purchase form to verify that the correct quantities and correct items have been ordered.</p> <p>1.6 Orders must thereafter be filed in date sequence</p> <p>1.7 This file must form the basis for follow up of orders and matching goods that are delivered to stores.</p> <p>1.8 The orders file should be reviewed weekly by the store controller and any orders, which have not been delivered as per agreement with the buyer, must be followed up immediately</p> |           |
| 2   | <p><b>Receipt of Inventory</b></p>   |           |
| 2.1 | <p>The Inventory clerk must compare the delivery note to the purchase order, an electronic Goods receiving note will be created on the system and authorized by the store controller</p> <p>2.2 The Inventory clerk must compare the delivery note to the relevant order before accepting the goods</p> <p>2.3 The goods received invoice must be signed by inventory clerk as proof of acceptance of the goods</p> <p>2.4 Goods returned note shall be filled in if stock is returned by the department to the warehouse, the goods returned note shall be prepared by the responsible official and signed be the responsible manager.</p>  |           |
| 3   | <p><b>Maintenance of Inventory</b></p>   |           |

|       |   |  |
|-------|---|--|
| 3.1   | Inventory and equipment belonging to the council must be clearly marked to indicate ownership.  |  |
| 3.2   | Inventory belonging to the council shall be kept in a place approved by the CFO, subject to the conditions he or she determines.  |  |
| 3.3   | No section shall carry inventory in excess of its normal requirements, as may be determined by the CFO'   |  |
| 3.4   | The CFO shall ensure that at least once every financial year, stock-taking of all stores of the council takes place as follows  |  |
| 3.4.1 | The financial year-end stock take will take place on the last week of the financial year or as close of that date as possible.  |  |
| 3.4.2 | All heads of sections and the council's external auditors must be notified of the date of the annual year end stock take'   |  |
| 3.4.3 | An official delegated the responsibility, shall make available stock take listing sheets to auditors for recording the physical count figures.  |  |
| 4     | <b>Issue of inventory</b>   |  |
| 4.1   | Only the Inventory clerk is authorized to issue goods from the general store  |  |
| .2    | Goods should be only issued in terms of a property authorized requisition form.   |  |
| 4.4   | The inventory clerk and recipient of goods must agree that the goods requisitioned, agree to the goods drawn from stores, as on the requisition   |  |
| 4.5   | The recipient must sign the requisition as evidence that the goods stated on the issue note, have been received.  |  |
| 4.6   | Once the stores have been issued, the requisition is captured into the computer system by the Inventory clerk and authorized by the store controller.   |  |
| 4.7   | The daily requisitions must capture on a spreadsheet and signed off by the relevant officials and then filed together with the requisitions on a daily basis.   |  |
| 5     | <b>Disposal of Goods</b>  |  |
| 5.1   | The CFO must furnish the council with a list of goods to be disposed of, together with the reasons for their disposal   |  |
| 5.2   | The goods disposed of in the instance referred to above may only be handed over to the purchaser on full payment of the purchase price, or when other satisfactory arrangements for payment have been made with the CFO |  |

**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.

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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 I inventory has been duly accounted for

Signature of official taking over inventory: \_\_\_\_\_

Designation : \_\_\_\_\_

Date : \_\_\_\_\_





