

VICTOR KHANYE LOCAL MUNICIPALITY

2015/2016 BUDGET RELATED POLICY

INVENTORY POLICY



# INVENTORY MANAGEMENT POLICY

2015-2016

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## 1. DEFINITIONS

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

<b>"Accounting Officer"</b>	means the Municipal Manager for the Municipality as contemplated in section 60 of the Local Government: Municipal Finance Management Act, 56 of 2003
<b>"Asset Control Officer"</b>	shall mean the person appointed as Asset Officer under section 6.2 below
<b>"Asset Officer"</b>	shall mean the person appointed as Asset Officer under section 6.2 below
<b>"Assistant Manager: Asset Management"</b>	shall mean the person appointed as Asset Officer under section 6.2 below
<b>"CFO"</b>	means the Chief Financial Officer designated in terms of section 80(2) (a) of the Local Government: Municipal Finance Management Act No56 of 2003
<b>"Cost"</b>	shall comprise costs of purchase, costs conversion and other costs incurred in bringing the inventories to their present location and condition
<b>"Delegated authority"</b>	means the official who is given the authority for relevant functions in terms of the municipality's written delegations;
<b>"Good received note"</b>	means a document which is used to acknowledge the receipt of goods in good condition and correct quantities
<b>"Inventories"</b>	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
<b>"Municipality"</b>	shall mean the Victor Khanye Local Municipality;
<b>"Net Realisable Value"</b>	Is the estimated selling price in the ordinary course of operations less the estimated costs of completion and estimated costs necessary to make the sale exchange or distribution.

<b>"Obsolete inventory"</b>	means items that have expired, are redundant or damaged;
<b>"Re-order level"</b>	means the level of inventory at which inventory is re-ordered;
<b>"Requisition form"</b>	means a written request to the Inventory Supervisor to supply specified inventory;
<b>"Store"</b>	means a place where inventory is stored and reserved for future use, or a source from which supplies may be drawn;
<b>"Stores Clerical Assistant"</b>	means the official responsible for the receipt, issue and safeguarding of inventory and cost-effective and efficient management of inventory.
<b>"Stock requisition form"</b>	means a document which is used to authorize the removal or issue of stock items from stores.

## 2. OBJECTIVE OF THE POLICY

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

- a) Provide guidelines that employees of the Municipality must follow 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 Victor Khanye Local Municipality's inventory received by the Asset Management Section and issued to users.

3.2 This policy specifically excludes:

- a) Water supplied to communities through water and sanitation infrastructure
- b) Equipment and other assets not defined as inventory;

## 4. LEGAL FRAMEWORK

4.1 In terms of the MFMA, the Accounting Officer for the 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).

## 5. ACCOUNTING FOR INVENTORY

### 5.1 Recognition of inventory

#### In terms of the paragraph 14 of GRAP 12:

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

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

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

44 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.

- 45 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

## 6 INVENTORY PROCEDURES

6.1 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.

### 6.2 Appointment of Responsible Officials

6.2.1 The Municipal Manager must appoint, in writing, an official to perform the duties of a Stores Clerical Assistant, an Asset Control Practitioner, an Asset Officer and an Assistant Manager: Asset Management in terms of this Policy, Section 238 of the Constitution of the Republic of South Africa, Section 59 of the Municipal Systems Act and Section 79 of the Municipal Finance Management Act.

6.2.2 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.

### 6.3 Ordering of Inventory

6.3.1 The Financial Management System must set inventory reorder levels for all items as determined by the Stores Department. The inventory levels must indicate the minimum and maximum inventory that can be maintained.

6.3.2 Due diligence and care shall be exercised in identifying low value and high value items of inventory and informed by the availability of storage space, need and frequent usage.

6.3.3 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.

6.3.4 When there is a need to purchase inventory, an official of the Stores Section will complete a request form detailing the items needed and their quantities and submit it to Supply Chain Management Section.

- 6.3.5 An official at the Supply Chain Management Section will initiate a process of requesting quotations from prospective suppliers or advertise for tender as per the Supply Chain Management Policy and Regulations.
- 6.3.6 The Supply Chain Management Section officials shall submit quotations received from prospective suppliers to officials at the Stores Section to fill an order instruction form in duplicate from a pre-numbered book, with the original copy attached to the quotations and the request form and given to officials at the Supply Chain Management Section to generate a purchase order.
- 6.3.7 The Supply Chain Management Unit will generate a purchase order which will then be forwarded to the supplier by an official of the Stores Section and another copy to the Stores Clerical Assistant to enable him/her to match the delivery notes to the order and the actual goods delivered. Another copy of the order and other related documents like quotations from suppliers and the order instruction to the Creditors Section for use in payment.

#### 6.4 Receipt of Inventory

- 6.4.1 The quantity and quality of the inventory received from suppliers must be according to specifications and information on the order.
- 6.4.2 The Stores Clerical Assistant must compare the delivery note and the actual goods delivered to the purchase order before accepting the goods.
- 6.4.3 The invoice or delivery note must match the supplier name and order number.
- 6.4.4 The Stores Clerical Assistant must prepare the Goods Received Note to record all the inventory items ordered and in good condition.
- 6.4.5 The Stores Clerical Assistant must ensure that:
  - a) All delivery notes 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
  - c) The supplier signs all amendments
- 6.4.6 The inventory received must be transferred to the secured store by the Stores Clerical Assistant.
- 6.4.7 The inventories must be stored in their respective sections once they have been received as detailed in 6.5.
- 6.4.8 Any receipt of inventory must be updated and recorded on the stock cards.
- 6.4.9 The inventory stock cards and the Financial Management System must be updated on the day the goods are received, by the Stores Clerical Assistant and Asset Control Practitioner.

#### 6.5 Storage of Inventory

- 6.5.1 Inventory must be stored in a secured, exclusive use area, under lock and key, furthermore the inventory must be insured in terms of the Asset Management Policy of the municipality.
- 6.5.2 The area must be used exclusively for the storage of inventory, with limited authorised access only.



- 6.5.3 Inventory must be positioned to facilitate efficient handling and checking.
- 6.5.4 All items must be stored separately, with proper segregation.
- 6.5.5 Inventory must be clearly labeled for easy identification. Inventory tag/stock cards or inventory labels may be used to identify each item and to aid in the physical verification of the items.

Details on stock cards should include the following:

- a) Goods Received Note number;
  - b) Quantity received;
  - c) Date of receipt;
  - d) Quantity issued;
  - e) Date of issue;
  - f) Stock Issue Form number; and
  - g) Closing stock.
- 6.5.6 Where possible, all items of the same type and reference must be stored together as per the description on the inventory records.
  - 6.5.7 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.
  - 6.5.8 Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.
  - 6.5.9 Due regard must be given to any safety standards which may apply to the storage of certain inventories.
  - 6.5.10 Steps must be taken to ensure safe custody of items, including precautions against loss or theft.
  - 6.5.11 The Stores Clerical Assistant 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.
  - 6.5.12 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.
  - 6.5.13 No unauthorised persons/officials shall obtain entry to premises, buildings or containers where inventory is kept, unless accompanied by the responsible official.
  - 6.5.18 The following fire protection precautions must be adhered to:
    - a) Inventories of flammable 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 in accordance with applicable legislation.

## 6.6 Issue of Inventory

- 6.6.1 Only the Stores Clerical Assistant is authorised to issue inventory from the storeroom.
- 6.6.2 Inventory must only be issued in terms of the approved requisition form of the Municipality.
- 6.6.3 All requisition forms must be signed by the Assistant Stores Clerk and the person receiving the goods and a senior official authorizing the transaction.
- 6.6.4 The Stores Clerical Assistant must prepare the Stock Issue Note once stock items to be issued have been picked up from the shelves
- 6.6.5 The official receiving the inventory must acknowledge the receipt of stock items requested, by signing the Stock Issue Note prepared by the Assistant Stores Clerk.
- 6.6.6 Inventories must be issued and used for official purposes only.
- 6.6.7 Any issuing of inventory must be recorded on the stock cards.

## 6.7 Obsolete inventory

- 6.7.1 The preparatory work for the disposal of obsolete inventory must be undertaken by the Assistant Stores Clerk and verified by the Asset Officer.
- 6.7.2 The Accounting Officer or delegated authority must convene a Disposal Committee for the disposal of obsolete inventory.
- 6.7.3 The Disposal Committee should consist of at least three officials, one of whom must act as the chairperson.
- 6.7.4 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 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.
- 6.7.5 All disposed of items must be updated in the inventory records/register/database for the purposes of proper management and control.

## 6.8 Inventory count

- 6.8.1 Items may be subject to an inventory count on a monthly basis.
- 6.8.2 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.
- 6.8.3 All approved Municipal procedures and processes must be complied with during the inventory count.
- 6.8.4 The Asset Officer must document in *Annexure B* 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.

- 6.8.5 The CFO must submit a report with the findings to the Accounting Officer, in order to have the matter reported to the Council of the Municipality for the write-off of any inventories losses, or the write-up of surpluses.
- 6.8.6 The appropriate disciplinary action must be instituted when applicable.
- 6.8.7 The inventory record, register, database or system must be updated accordingly.

## 7 INVENTORY RECORDS

- 7.1 An inventory record/register/database must be maintained for all inventory items, either manually and / or electronically.
- 7.2 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.
- 7.3 Monthly stock counts must be carried out and reconciliations must be done by the Asset Officer on differences between the physical stock and the stock records on the Financial Management System and all records thereof must be submitted to the Assistant Manager: Asset Management.
- 7.3 An inventory register/database must be printed monthly and the hard copy filed in a chronological order to maintain a proper audit trail.

## 8 REPORTING

- 8.1 A report must be submitted at least quarterly to the Chief Financial Officer 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.
- 8.2 Inventories purchased during the financial year must be disclosed at cost in the disclosure notes of the Annual Financial Statements of the Municipality.
- 8.3 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.

## 9 POLICY ADOPTION

This policy has been considered and approved by the Council of Victor Khanye Local Municipality on this day..... of ..... 2015.

**ANNEXURE A:****PROCEDURES FOR ORDERING, RECEIPT, MAINTENANCE, ISSUING AND DISPOSAL OF STOCK**

NO.	PROCEDURE	FREQUENCY
1.	<b>Ordering of Inventory:</b>	
1.1	<p>Stores reorder levels must be set for all items by the Asset Officer which will be as follows:</p> <ul style="list-style-type: none"> <li>• Reorder Level</li> <li>• Maximum Level</li> <li>• Minimum Level</li> <li>• Emergency Level</li> </ul> <p>The Stores Clerical Assistant :</p>	On-going
1.2	<ul style="list-style-type: none"> <li>• Must use the listing as a primary source of information to complete the purchase requisition; and</li> <li>• Physical inspection of stock on shelves shall be conducted before the requisition is filled in</li> </ul>	On-going
1.3	A request form detailing the items needed and their quantities is filled and submitted to Supply Chain Management Section. Quotations from prospective suppliers are given to a Stores official who have to issue an order instruction and attach it to the quotations and request form and submit it to Supply Chain Management Section.	On-going
1.4	An order is generated by a Supply Management official and one copy given to Creditors/Expenditure Section, another copy to the Stores Clerical Assistant and another copy given to the Supplier.	On going
1.5	The order must be matched to the request form and order instruction to verify that the correct quantities and correct items have been ordered.	On going
1.6	The order with all the other documents must then be filed in alphabetical sequence at the Creditors Section.	On going
2.	<b>Receipt of Stock:</b>	
2.1	Goods will be delivered to the receiving area where the documentation will be recorded and then forwarded to the Stores Clerical Assistant.	On going
2.2	The receiving official must match the delivery note to the purchase order, and fill out a pre-numbered goods received note.	On going
2.3	The Stores Controller / Store-man must compare the delivery note and actual goods delivered to the relevant order before accepting	On going



	the goods.	
2.4	The goods received note must be signed by the Stores Controller / Store-man as proof of acceptance of the goods.	On going
2.5	Stock cards must be updated immediately on receipt of goods.	On going
2.6	Goods that are unused after the completion of the work or the fulfilment of the purpose for which they were issued, must be returned to the store and must be included in stock.	Periodically
3.	<b>Maintenance of Stores:</b>	
3.1	Inventory and equipment belonging to the Council must be clearly marked as such, to indicate ownership.	On going
3.2	Inventory belonging to the Council shall be kept in a place approved of by the Accounting Officer, subject to the conditions he or she determines.	On going
3.3	No section shall carry inventory in excess of its normal requirements, as may be determined by the Accounting Officer.	On going
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:	Annually
3.4.1	The financial year-end stock take will take place on the last day of the financial year or as close to that date as possible.	Annually
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.	Annually
3.4.3	Stores must be closed at noon the day before stock take. A notice to this effect must be prominently displayed on the stores notice board.	Annually
3.4.4	In the case of an emergency, stock items may only be issued on the explicit authority of the Asset Officer.	Annually
3.4.5	Prior to stock take, the Asset Officer must ensure that all transactions up to the date of stock take, have been recorded. All goods received notes, requisition issues and goods returned notes should be captured onto the Financial Management System.	Annually
3.4.6	An official delegated the responsibility, shall make available stock take listing sheets to auditors for recording the physical count figures.	Annually

3.4.7	Stock items must be counted in an orderly fashion from one end to the other, using the two count method by a store-man and by persons not dealing with stock on a regular basis.	Annually
3.4.8	Stock that has been drawn for use at a later date should be included in the stock-count and not expensed. Consumables should also be included in the stock-count and not expensed.	Annually
3.4.9	After each item is counted, they must be marked with a sticker to indicate that they have been counted.	Annually
3.4.10	After each item is counted, the total must be entered onto the stock sheets.	Annually
3.4.11	Stock sheets must be signed by counters and checkers.	Annually
3.4.12	On completion of the count, all stock sheets must be handed to the Assistant Manager: Asset Management.	Annually
3.4.13	Physical count figures will be verified to the computerised listing.	Annually
3.4.14	Should any discrepancies arise, a recount of the product is done, and the requisition entries are re-checked.	Annually
3.4.15	All write-offs of obsolete or damaged stock should be authorised by the CFO.	Annually
3.5.16	The Assistant Manager: Asset Management shall submit a report to the CFO stating the quantity and value of any surplus or shortage of stores revealed by the stock-take, together with the possible reasons for this.	Annually
3.5.17	The CFO shall then report such surpluses and shortfalls to the Council for further steps to be taken, if necessary.	Annually
3.5.18	A thorough internal control system must be established by the CFO to ensure that when a change of officials responsible for stores and equipment takes place, accountability with regard to losses and deficits can be clearly established.	Annually
<b>4.</b>	<b>Issue of Stock:</b>	
4.1	Only the Stores Clerical Assistant is authorized to issue goods from the General stores.	On going
4.2	Goods should only be issued in terms of a properly authorised requisition form.	On going
4.3	Specimen signatures of all persons authorized to sign requisitions shall be supplied to the Asset Officer.	On going

4.4	If the signature is not of an authorised official, the requisition should be sent back to the respective section.	On going
4.5	The Stores Clerical Assistant must verify that the correct vote or reference number is entered on the stock requisition for the type of goods requested.	On going
4.6	The Stores Clerical Assistant and recipient of goods must agree that the goods requisitioned, agree to the goods drawn from stores, which is consistent with the Stock Issue Note.	On going
4.8	The recipient must sign the stock requisition book as evidence that the goods stated on the issue note, have been received.	On going
4.9	The Stores Clerical Assistant must immediately update details of the issue on the stock card of each item issued.	On going
4.10	Once the stores have been issued, the requisition is captured into the Financial Management System and updated by the Asset Control Practitioner.	On going
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.	Periodically
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.	Periodically
5.3	Stores may be disposed of by public auction provided that the approval of Council is obtained.	Periodically

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REQUEST FOR FORM

# VICTOR KHAVERE

# PLAASLIKE MUISPALTET

FD-302 (REV. 11-27-70)

TYPE OF FUEL: ..... REQU. NO.: ..... DATE: .....

[illegible]

DIPSTICK READINGS

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Issued by

