

UMZIMVUBU LOCAL MUNICIPALITY



INVENTORY / STOCK MANAGEMENT POLICY

DESCRIPTIONS	PAGE
1. BACKGROUND	3
2. PURPOSE	3
3. OBJECTIVES	3
4. LEGISLATIVE FRAMEWORK	3
5. DEFINITIONS	4
6. REPLENISHMENT OF STOCK	5
7. INVENTORY LEVELS	5
8. RECEIPT OF INVENTORY	5
9. ISSUING OF INVENTORY	7
10. STORAGE OF INVENTORY	7
11. SAFEGUARDING, NEATNESS, SAFETY AND OPTIMAL LAYOUT OF THE STORES	8
9 OBSOLETE INVENTORY	8
10 STOCK COUNT	9
11 STOCK DISPOSAL	10
12 INVENTORY RECORDS	10
13 REPORTING	11
14 INTERPRETATION OF THIS POLICY	11
15 PERMANENT / TEMPORARY WAIVER OF THIS POLICY	12
16 COMPLIANCE AND ENFORCEMENT	12
17 AMENDMENT AND / ABOLITION OF THIS POLICY	12

1. BACKGROUND

The Umzimvubu Local Municipality, Budget and Treasury office is responsible for the implementation of inventory Management Policy throughout the Municipality. This policy is aligned to the Inventory Management Framework and adherence to the Municipal Finance Management Act, Act 56 of 2003 as amended.

2. PURPOSE

The purpose of the Inventory Management is to lay down procedures and processes for the procurement management and control over inventory (stock) items in accordance with all relevant regulations and legislations and other policies and directives. The envisaged outcome is an efficient and effective control and inventory management tool for the Municipality.

3. OBJECTIVES

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. LEGISLATIVE 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

In terms of the following paragraph 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

Inventories shall be measured at the lower of cost and net realization value

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

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.

Some inventories may be allocated to other assets accounts, for example, inventory used as a component of self-constructed

POLICY ATTRIBUTES

Responsibility for Inventory Management states as follows:

The Accounting Officer of the an Institution must take full responsibility and ensure that proper control systems exist for inventory and that-

Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse and Stock levels are at an optimum and economical level.

The Accounting Officer of an institution must ensure that processes (whether manual or electronic) and procedures are in place for effective, efficient, economical and transparent use of the institution's inventory.

4. DEFINITIONS

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 an electronic number which is created on the system to acknowledge the receipt of goods in good condition and correct quantities

<i>“Inventories”</i>	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
<i>“Net Realisable value”</i>	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.
<i>“Obsolete inventory”</i>	means items that have expired, are redundant or damaged;
<i>“Re-order level”</i>	means the level of inventory at which inventory is re-ordered;
<i>“Requisition form”</i>	means a written request to the Inventory Supervisor to supply specified inventory;
<i>“Responsible manager”</i>	means the official responsible for the budget of a department
<i>“Store”</i>	means a place where inventory is stored and reserved for future use,
<i>“Stores Officer”</i>	means the official responsible for the requisition, receipt, issue, recording, safeguarding of inventory and cost-effective and efficient management of inventory.

5. REPLENISHMENT OF STOCK

Budget and Treasury department should identify inventory items that need to be ordered for all departments. Items identified may either be items due for replenishment due to normal usage or specific requests received for specific projects or tasks.

The following may be used as methods/ tools to assist with the process of determining items to be replenished:

5.1 INVENTORY PROCEDURES

5.1.1 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.

5.2.2 APPOINTMENT OF RESPONSIBLE OFFICIALS

5.2.1 The Accounting Officer must appoint, in writing, officials to perform the duties of a Stores Officer 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

- Budget and treasury office must set Inventory reorder levels for all items. The inventory levels must indicate the minimum and maximum inventory that can be maintained.
- Due diligence and care shall be exercised in identifying low value and high value items of inventory

- 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.
- A reorder listing should be printed by Stores Officer and reviewed weekly by Assistant Manager Supply Chain

6. INVENTORY LEVELS (MAXIMUM & LEVELS)

A system is maintained for ensuring that inventory items have been allocated with minimum and maximum levels, where possible. The primary objective of the inventory system is to ensure that Umzimvubu Local Municipality, never run out of stock, especially critical stock items. The system will also ensure that stock levels are kept at a satisfactory level. Minimum and maximum levels will be used as an "early warning system" to control stock and ensure that stock replenishments are done regularly and timeously (with due consideration to order and delivery on times)

The stock level is also an important factor to keep in mind when deciding how much stock should be ordered at a specific point in time. The minimum level of stock depends on the average usage of the stock and the time it takes to deliver the ordered stock.

7. RECEIPT OF INVENTORY

- The quantity and quality of the inventory received from suppliers must be according to specifications and information on the order form.
- The Stores Officer must compare the delivery note to the purchase order before accepting the goods.
- The invoice or delivery note must match the supplier name and order number.
- The Stores Officer must ensure that:

a) All delivery notes and or invoices are signed by him/her and the supplier

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

- The inventory received must then be stored to the municipal store by the Stores Officer and the goods receive number and quantities captured on the bin card by the Stores Officer.
- The inventories must be stored in their respective sections once they have been received.
- The inventory module on financial system must be updated on the day the goods are received, by the Stores Officer and authorized on the system by the Assistant Manager Supply Chain

8. ISSUING OF INVENTORY

Only Stores Officer is authorised to issue inventory from the storeroom.

Stock will be issued every **Wednesdays only from 09:00 to 12:00**

Stock will only be issued upon completing stock requisition form by the requester and requisition form must be approved by departmental head of department.

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.

The Stores Officer must update the bin card when stock items to be issued have been picked up from the shelves with the requisition number and quantities

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

Inventories must be issued and used for official purposes only.

The Stores Officer must capture the requisition on the system and then it must be authorized by Assistant Manager Supply Chain.

9. STORAGE OF INVENTORY

- 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.
- The area must be used exclusively for the storage of inventory, with limited authorised access only.
- Inventory must be positioned to facilitate efficient handling and checking.
- All items must be stored separately, with proper segregation.
- 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 on bin cards 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.
- Where possible, all items of the same type and reference must be stored together as per the description on the inventory records.
- Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.
- Due regard must be given to any safety standards which may apply to the storage of certain inventories.
- Steps must be taken to ensure safe custody of items, including precautions against loss or theft.
- The Store Officer 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.

- 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.
- No unauthorised persons/officials shall obtain entry to premises where inventory is kept, unless accompanied by the responsible official.
- Whenever a change in the Stores Officer occurs, an inventory count must be conducted.
- 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.
- Should the above not be complied with, the official taking over shall be liable for any discrepancies.
- A handing-over certificate must be completed by the handing and taking over officials and a copy retained for record purposes.
- 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.

10. SAFEGUARDING, NEATNESS, SAFETY AND OPTIMAL LAYOUT OF THE STORES

All store items should be safeguarded and locked up at all times. The Store will be kept safe and neat at all times. The layout of the store must support the safety of employees at all times, i.e. clear passages for movement and packing. The layout will also ensure clear and easy access, as well as optimum flows for movement. Items will not be stacked so high that they constitute a safety risk.

When goods are moved from one point to another, it will be done safely and with maximum care. Care will also be taken to ensure that employees are not injured whilst moving heavy items.

11. OBSOLETE INVENTORY

- The preparatory work for the disposal of obsolete inventory must be undertaken by the Stores Officer and verified by the Assistant Manager Supply Chain.
- The Accounting Officer or delegated authority must approve the disposal of obsolete inventory.
- 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;
 - d) The inventory has been damaged and is rendered useless.
- All disposed items must be updated in the financial system for the purposes of proper management and control.

12. STOCKTAKING / COUNTS

- The municipality should perform both Mid- year and year end Stock Counts
 - The Inventory Supervisor/ Manager will ensure that the stock count takes place on half yearly basis
 - Internal Auditors will be invited to witness the stock take / count during the year end stock count.
 - External Auditors will be invited to witness the stock take/ count at year-end
 - All stock items counted should be recorded on the stock count sheet.
 - Counted quantities must be indicated on the stock count sheet in ink.
 - The physical items counted must be marked as counted.
 - At the end of the stock take, the Inventory Supervisor must ensure that all stocks are accounted for (hence the marking off of the counted stock)
 - The appropriate disciplinary action must be instituted where applicable for stock discrepancies.
 - The inventory register and financial system must be updated accordingly

Discrepancies between theoretical stock (per stock register) and physical stock (counted) must be recorded, followed up and cleared / corrected. Corrections must be approved by Assistant Manager: Supply Chain Management.

Final stock sheets must be signed and filed.

13. DISPOSAL OF INVENTORY ITEMS

- Obsolete, expired, redundant and damaged inventory must be identified and cleared on an annual basis i.e. at year — end. The only inventory remaining in the stores at the year-end stock take/ count, must be useful items which are frequently requested by officials.
- All items to be disposed of must be identified and listed.
- A write-off memo giving reasons for disposal must be completed and submitted to the Asset Manager: Supply Chain Management and Chief Financial Officer for approval.
- Inventory Management will consider the following analysis when considering the method of disposal.
 - potential market value or other intrinsic values
 - the location and volume of the inventory to be disposed of
 - the ability to support other government programs, and
 - the cost of the disposal methods.
- Different methods will be used for different types of inventory. It is important to ensure accountability and transparency, as well as due consideration of cost considerations when choosing a method of disposal.
- Disposal options/ methods include transfer for alternate use, rental, sale and demolition.
- All inventory items must be disposed of and written off with the proper authorization and records need to be kept of these items.
- Inventory records need to be updated to reflect the actual quantity on hand after the disposal.

14. INVENTORY RECORDS

- An inventory register must be maintained for all inventory items, either manually and / or electronically.
- 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) Opening/closing balance;
 - 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) Quantity and value of obsolete stock; and
- An inventory register/database must be printed monthly and the hard copy filed in a chronological order to maintain a proper audit trail.

14. REPORTING

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.

Inventories on hand at 30 June must be disclosed at cost in the statement of financial position in the Annual Financial Statements.

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
- 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
- g) the circumstances or events that led to the reversal of a write-down of inventories
- h) the carrying amount of inventories pledged as security for liabilities.

15. INTERPRETATION OF THIS POLICY

- All words contained in this policy shall have an ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- The dispute on interpretation of this policy shall be declared in writing by any party concerned
- The Office of the Municipal Manager shall give a final interpretation of this policy in case of written dispute.
- If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council.

16. PERMANENT/TEMPORARY WAIVER OR SUSPENSION OF THIS POLICY

This policy may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.

Municipal Manager may under circumstances of emergency temporarily waive this policy subject to reporting of such waiver or suspension to Council.

17. COMPLIANCE AND ENFORCEMENT

Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

It will be the responsibility of Council to enforce compliance with this policy.

18. AMENDMENT AND/OR ABOLITION OF THIS POLICY

This policy may be amended or repealed by Council as it may deem necessary.

Date of Approval : _____

Council resolution no.: _____