



DRAFT INVENTORY MANAGERMENT POLICY 2021/22

BA-PHALABORWA LOCAL MUNICIPALITY

7/1/2020

**DOCUMENT: INVENTORY MANAGEMENT POLICY
MUNICIPALITY: BA-PHALABORWA LOCAL MUNICIPALITY**

The Ba-Phalaborwa 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.

1. OBJECTIVE OF THE POLICY

1.1 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
- d) 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.
- e) The envisaged outcome is an efficient and effective control and inventory management tool for the Municipality.

2. DEFINITIONS

2.1 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 an electronic number which is created 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 under section 4.1 below.

“Net Realisable” 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.

“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;

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

3. SCOPE

3.1 This policy applies to Ba-Phalaborwa Local Municipality’s inventory received by the Receiving Clerk and issued to users by the Dispatch Clerk

3.2 This policy specifically excludes:

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

4. 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).

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

4.1 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

4.2 MEASUREMENT AFTER RECOGNITION

Inventories shall be measured at the weighted average method

4.3 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 property, plant or equipment.

Inventories allocated to other assets in this way are recognized as an expense during the useful life of that asset

4. 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.

5.2 APPOINTMENT OF RESPONSIBLE OFFICIALS

5.2.1 The CFO must appoint, in writing, officials to perform the duties of a Store Controller 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 by Store Controller and reviewed weekly by the Supply Chain Manager

5.3.5 The Store Controller must use the reordering maximum quantities as a primary source of information to complete the applicable purchase form as per Supply Chain Management Policy.

5.3.6 A copy of the purchase order form will then be forwarded by the Store Controller to the Receiving Clerk to match the goods received against the order once goods are delivered at the stores

5.3.7 Orders must thereafter be filed in alphabetical order, one file for delivered Orders and one file for outstanding orders.

5.3.8 This file must form the basis for follow up of orders and for matching goods that are delivered to inventory department.

5.3.9 The orders file should be reviewed weekly by the Stores Controller and any orders, which have not been delivered as per the agreement with the Store Controller, 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 and information on the order form.

5.4.2 The Receiving Clerk must compare the delivery note to the purchase order before accepting the goods.

5.4.3 The invoice or delivery note must match the supplier name and order number.

5.4.4 The Receiving Clerk must create an electronic Goods Received Note on the system to record all the inventory items delivered in good condition.

5.4.5 The Receiving 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

5.4.6 The inventory received must then be transferred to the secured store by the general worker and the goods receive number and quantities captured on the bin card by the Receiving Clerk.

5.4.7 The inventories must be stored in their respective sections once they have been received as detailed in 5.5

5.4.8 The inventory record on the system must be updated on the day the goods are received, by the Receiving Clerk and authorized on the system by the Store Controller.

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 authorised 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 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.

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

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 Store Controller 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 unauthorised 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 the Store Controller 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, attached here to as Annexure B, 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:

1. 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;
2. The area must be clearly signposted; and Fire extinguishing equipment must be placed in the area where inventories are held and must be serviced regularly.

5.6 ISSUING OF INVENTORY

5.6.1 Only the Dispatch Clerk 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, supervisor or foreman

5.6.4 The Dispatch Clerk must update the bin card when stock items to be issued have been picked up from the shelves with the requisition number and quantities.

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

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

5.6.7 The Dispatch Clerk capture the requisition on the system and then it must be authorized by the Store Controller

5.7 OBSOLETE INVENTORY

5.7.1 The preparatory work for the disposal of obsolete inventory must be undertaken by the Store Controller and verified by the Supply Chain Manager.

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

5.7.3 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 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;
- d) The inventory has been damaged
- d) The inventory has been damaged and is rendered useless.

5.7.4 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 spot count on a monthly basis.

5.8.2 Inventory counts may be carried out on a four monthly basis with a full inventory count at the end of each financial year. The inventory reconciliation will be performed on a quarterly basis after each stock count conducted.

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

5.8.4 The Store Controller 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 Accounting Officer, 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 or system must be updated accordingly.

5. 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
- i) 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 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.

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 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.

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.

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.

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.

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.: _____