



CAPE WINELANDS DISTRICT
MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

INVENTORY AND STOCK MANAGEMENT POLICY

FEBRUARY 2015

Approval by Council:

Implemented:

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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.

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 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 Cape Winelands District Municipality;

“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 the Municipality’s inventory received by the Store man and issued to users.

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 .Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

4.2 MEASUREMENT AFTER RECOGNITION

The basis of allocating cost to inventory items is the weighted average method.

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.

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

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

- 5.3.2 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.
- 5.3.3 A re-order listing should be printed by the Store man and reviewed weekly by the Supply Chain Manager.
- 5.3.4 A copy of the purchase order form will then be forwarded by the procurement department to the receiving department, for the receiving Store man to match the goods received against the order once goods are delivered.
- 5.3.5 Orders must thereafter be filed in date sequence.
- 5.3.6 This file must form the basis for follow up of orders and for matching goods that are delivered to inventory department.
- 5.3.7 The orders file should be reviewed weekly by the Stores Manager 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 and information on the order form.
- 5.4.2 The Store man 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 Store man must create an electronic Goods Received Note on the system to record all the inventory items delivered in good condition
- 5.4.5 The Store man 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.
- 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/register/database or system must be updated on the day the goods are received, by the Store Keeper/Buyer and authorized on the system by the Senior Store Keeper/Buyer.

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.
- 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, 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 man 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 store personnel occurs, an inventory count must be conducted.

5.5.15 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.

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:

- 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 ISSUING OF INVENTORY

5.6.1 Only the store personnel 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 authorised by the responsible manager.

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

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

5.6.6 The store personnel must capture the requisition on the system and then it must be authorized by the Store Manager.

5.7 OBSOLETE INVENTORY

5.7.1 The preparatory work for the disposal of obsolete inventory must be undertaken by the Store man 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 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.

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.

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

5.8.4 The Store man 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.

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 inventory losses, or the write –up of surpluses.

5.8.6 Appropriate disciplinary action must be instituted when applicable.

5.8.7 The inventory record, register, database or system 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

- 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.

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

| NO | PROCEDURE | FREQUENCY |
|-----|---|-----------|
| 1. | Ordering of Stores: | |
| 1.1 | Stores reorder levels must be set for all items by the CFO which will be as follows: <ul style="list-style-type: none"> • Reorder Level • Maximum Level • Minimum Level | On-going |
| 1.2 | A reorder listing should be printed weekly and reviewed by the Store Manager before purchase order can be completed | On-going |
| 1.3 | The Storeman: <ul style="list-style-type: none"> • Must use the listing as a primary source of information to complete the purchase form; and • Physical inspection of stock on shelves shall be conducted before the purchase form is filled in. | On-going |
| 1.4 | A copy of the purchase order form will then be forwarded by the Store Manager to the stores clerks. | On-going |
| 1.5 | The order must be matched to the purchase form to verify that the correct quantities and correct items have been ordered. | On-going |
| 1.6 | Orders must thereafter be filed in date sequence. | On-going |
| 1.7 | This file must form the basis for follow-up of orders and for matching goods that are delivered to stores followed up immediately. | On-going |
| 2 | Receipt of Stock: | |
| 2.1 | Goods will be delivered to the receiving area where the documentation will be recorded and then forwarded to the Store man. | On-going |
| 2.2 | The receiving official must match the delivery note to the purchase order, an electronic GRN will be created on the system and authorized by the Store Manager. | On-going |

| | | |
|----------|--|--------------|
| 2.3 | The Stores Clerk / Store-man must compare the delivery note to the relevant order before accepting | On-going |
| 2.4 | The goods received note or invoice must be signed by the Stores Clerk / Store-man as proof of acceptance of the goods. | On-going |
| 2.5 | A computerised Goods Received Note or Stores Issue Requisition which reflects full particulars of receipts and issues must be maintained by the Stores Clerk and updated/authorized by the Store Manager, immediately when goods are received or | On-going |
| 2.6 | Goods that is 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. | On-going |
| 2.7 | 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 by the Responsible Manager | Periodically |
| 2.8 | The Store man shall acknowledge the receipt of goods from the department by signing the Goods Returned Note | Periodically |
| 3 | Maintenance of Stores: | |
| 3.1 | Inventory and equipment belonging to the Council must be clearly marked/ bar-coded as such, to indicate ownership. | On-going |
| 3.2 | Inventory belonging to the Council shall be kept in a place approved of by the CFO, 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 | 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 week 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 CFO. | Annually |
| 3.4.5 | Prior to stock take, the Store Manager 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 stores computer 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 | All bin cards must be removed from the shelves before the stock count. | Annually |
| 3.4.8 | 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 |
| 3.4.9 | Stock that has been drawn for use at a later date stock-count and not expensed. | Annually |
| 3.4.10 | After each item is counted, they must be marked with a sticker to indicate that they have been | Annually |
| 3.4.11 | After each item is counted, the total must be entered onto the stock sheets. | Annually |
| 3.4.12 | Stock sheets must be signed by counters and | Annually |
| 3.4.13 | On completion of the count, all stock sheets must be handed to the Supply Chain Manager. | Annually |
| 3.4.14 | Physical count figures will be verified to the computerised listing. The Stock Controller should not be involved in any aspect of this verification. | Annually |
| 3.4.15 | Should any discrepancies arise, a recount of the product is done, and the requisition entries are re- | Annually |
| 3.4.16 | All write-offs of obsolete or damaged stock should be authorised by the CFO. | Annually |

| | | |
|--------|---|----------|
| 3.4.17 | The Store Manager shall submit a report 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 |
| 3.4.18 | The CFO shall then report such surpluses and shortfalls to the Council for further steps to be taken, | Annually |
| 3.5 | 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 |
| 4 | Issue of Stock: | |
| 4.1 | Only the Storeman are 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 Store | On going |
| 4.4 | If the signature is not of an authorised official, the requisition should be sent back to the respective | On going |
| 4.5 | The Responsible Manager must verify that the correct vote is entered on the requisition for the type of goods requested and that there is sufficient budget provision against the vote. | On going |
| 4.6 | The Store man and recipient of goods must agree that the goods requisitioned, agree to the goods drawn from stores, as on the requisition. | On going |
| 4.7 | The recipient must sign the requisition as evidence that the goods stated on the issue note, have been | On going |
| 4.8 | Once the stores have been issued, the requisition is captured into the computer system by the store clerk and authorised by the Store Manager. | On going |
| 4.9 | The daily requisitions must be captured on a spreadsheet and signed off by the relevant officials and then filed together with the requisitions on a daily basis. | On going |

| | | |
|----------|--|--------------|
| 5 | Disposal of Goods: | |
| 5.1 | The CFO must furnish the Council with a list of goods Periodically 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 |

ANNEXURE B: 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 C: INVENTORY COUNT CERTIFICATE

Reference: _____
Enquiries: _____
Date: _____

FINANCIAL DEPARTMENT

Attention: Chief Financial Officer

INVENTORY COUNT FOR THE PERIOD: _____

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 |
|-----|---------------------|----------|-------|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| 5. | | | |
| 6. | | | |
| 7. | | | |
| 8. | | | |
| 9. | | | |
| 10. | | | |

The following factors gave rise to the surplus items:

ANNEXURE C (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 under review 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