



“Together we deliver and grow”

INVENTORY PROCEDURE MANUAL

TABLE OF CONTENTS

THE INVENTORY MANAGEMENT CYCLE		PAGE
1. Background and introduction	3	- 4
2. Ordering of Stores	5	- 5
3. Receipt of Stock	6	- 6
4. Maintenance of Stores	6	- 7
5. Issue of stock	8	- 8
6. Disposal of goods	8	- 8

1. Background and introduction

The Asset Management Function is a key strategic function in any organisation; whose responsibility it is to see to it that the municipal inventory are adequately managed. Secondly and generally, the profile of inventories or the inventory base of any organisation gives an indication of what that organisation is about. This may be termed its core business, its mandate or it may be termed, 'the reason for existence'. Accordingly; and most often than not, for such municipal the inventory base is generally value in the statement of financial position of such reporting municipality. The Harry Gwala District Municipality is no different, as an institution whose core business and mandate is to deliver tangible services to its citizens. Accordingly, its inventory base is therefore reflective of its main business and therefore, the inventory base value represents a value in the institutions statement of financial position. Put differently, the Municipality's inventory base is effectively inseparable from the Municipality's reason for existence. It follows therefore that if the municipal inventory base is of such strategic importance to the municipal, then 'adequate protection of inventories' must be achieved at all costs. This is precisely what the opening line of this introductory section refers to when it says that the role of the Asset Management Function in any organisation is 'to see to it that such municipal physical inventories are adequately managed'.

The next question to ask therefore is, what does adequate inventory management' mean? Practically, adequate management of inventories means adequate or reasonable protection of inventories from risks that inventories are exposed to. Inventories and resources of any entity are exposed to a number of risks; which at broad level are categorised into two risk types; inherent risks and control risks. Inherent risks are risks that any item reported in the annual financial statements (statement of financial performance or statement of financial position) ***is automatically and without any further ado exposed to***, this by virtue of the nature of such an item. On the other hand, control risks are risks that a given item of the financial statement is exposed to ***in the absence of an effective internal control systems***. Both risk types can be and do get reduced to an acceptable level through the implementation of effective mitigating controls that address both risk types.

1. Background and introduction (cont.)

What are the key risk factors that the Harry Gwala District Municipality's inventories are exposed to? We group these risk factors into the two broad risk categories discussed above.

Inherent risks:

Inventories at the Harry Gwala District Municipality are exposed to the following inherent risks:

- The risk of technical obsolescence or a risk of technical redundancy of an asset.
- The risk of economic obsolescence of a given asset.
- The risk of natural disasters in the form of floods and lightening.
- The risk of fire, either caused by electrical faults or by human negligence.
- The risk of damage to Municipal inventories because of riots.

Control risks:

Inventories are exposed to the following control risks:

- The risk of misuse of Municipal inventories by Municipal personnel.
- The risk of damage to Municipal inventories because of negligence by Municipal personnel or by third parties.
- The risk of theft of Municipal inventories.

This procedure manual therefore is about mitigating controls that respond to the risk factors identified above

PROCEDURES FOR ORDERING, RECEIPT, MAINTENANCE, ISSUING AND DISPOSAL OF STOCK

1. Ordering of Stores

1.1 Stores reorder levels must be set for all items by the Senior Stores clerk/Stores Controller which will be as follows:

- Reorder Level
- Maximum Level
- Minimum Level
- Emergency Level

1.2 A reorder listing should be reviewed by the SCM Practitioner: Logistics and Disposal before the requisition is filled in.

1.3 The Senior Stores clerk:

- Must use the listing as a primary source of information to complete the purchase requisition; and
- Physical inspection of stock on shelves shall be conducted before the requisition is filled in
- Should also consult the User Departments about inventory required for planned maintenance.

1.4 The purchase requisition must be generated on the financial system and forwarded to the buying section.

1.5 A copy of the purchase order form will then be forwarded by the buying section to the stores section.

1.6 The order must be matched to the requisition copy to verify that the correct quantities and correct items have been ordered.

1.7 Orders must thereafter be filed in order to do follow ups.

1.8 This file must form the basis for follow up of orders and for matching goods that are delivered to stores

1.9 The orders file should be reviewed regularly by the SCM Practitioner: Logistics and Disposal and any orders, which have not been delivered as per the agreement with the buyer,

must be followed up immediately.

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 Storeman or his supervisor.

2.2 The stores official receiving the goods must match the delivery note to the purchase order and sign the delivery note.

2.3 The Senior Stores clerk / Store-man must compare the delivery note to the relevant order before accepting the goods.

2.4 The delivery note must be signed by the Senior Stores Clerk or stores official receiving the goods as proof of acceptance of the goods.

2.5 A computerised Goods Received Voucher and Stock Requisition or Issue Notes which reflects full particulars of receipts and issues must be maintained by the Senior Stores Clerk or Storeman and updated immediately when goods are received or issued.

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 back in stock.

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

2.7 The Senior Stores clerk shall acknowledge the receipt of goods from the department by signing the Goods Returned Note

3. Maintenance of Stores

3.1 Inventory and equipment belonging to the Council must be clearly marked/ bar-coded as such, to indicate ownership.

3.2 Inventory belonging to the Council shall be kept in a place approved of by the Asset Manager: and CFO, subject to the conditions he or she determines.

3.3 No municipal official shall request inventory in excess of its normal requirements for that specific job, as may be determined by the relevant user departments.

3.4 The Asset Manager: shall ensure that at least once every month, stock-taking of all stores of the Council takes place as follows:

3.4.1 The monthly stock take will take place on the last day of the month or as close to that date as possible.

3.4.2 All Heads of Sections and the Council's external auditors must be notified of the date of the annual year end stock take.

3.4.3 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.

3.4.4 In the case of an emergency, stock items may only be issued on the explicit authority of the relevant managers.

3.4.5 Prior to stock take, the SCM Practitioner: Logistics and Disposal 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.

3.4.6 An official delegated the responsibility, shall make available stock take listing sheets to auditors for recording the physical count figures.

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.

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.

3.4.9 After each item is counted, they must be marked with a sticker to indicate that they have been counted.

3.4.10 After each item is counted, the total must be entered onto the stock sheets.

3.4.11 Stock sheets must be signed by counters and checkers.

3.4.12 On completion of the count, all stock sheets must be handed to the SCM Practitioner.

3.4.13 Physical count figures will be verified to the computerised listing. The Stock Controller should not be involved in any aspect of this verification.

3.4.14 Should any discrepancies arise, a recount of the product is done, and the requisition entries are re-checked.

3.4.15 All write-offs of obsolete or damaged stock should be authorised by the CFO.

3.4.16 The Asset 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.

3.4.17 The CFO shall then report such surpluses and shortfalls to the Council for further steps to be taken, if necessary.

3.4.18 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.

4. Issue of Stock

- 4.1 Only the Senior Stores clerk are authorized to issue goods from the General stores.
- 4.2 Goods should only be issued in terms of a properly authorised requisition form.
- 4.3 Specimen signatures of all persons authorized to sign requisitions shall be supplied to the SCM Practitioner: Logistics and Disposal.
- 4.4 If the signature is not of an authorised official, the requisition should be sent back to the respective section.
- 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.
- 4.6 Stock Issue Note must then be completed in duplicate. Control of the issue book is the responsibility of the Stores clerk
- 4.7 The Senior Stores clerk 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.
- 4.8 The recipient must sign the issues note/book as evidence that the goods stated on the issue note, have been received.
- 4.9 Once the stores have been issued, the requisition is captured into the computer system and updated by the data capture clerk. The issue note and the requisition must be filed in sequential order.

5. Disposal of Goods

- 5.1 The CFO must furnish the Council with a list of goods to be disposed of, together with the reasons for their disposal.
- 5.2 The goods disposed of in the instance referred to above may only be handed over to the purchaser on full payment of the purchase price, or when other satisfactory arrangements for payment have been made with the CFO.
- 5.3 Stores may be disposed of by public auction provided that the approval of Council is obtained. Periodically