

GREATER LETABA MUNICIPALITY



INVENTORY POLICY

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1 PURPOSE AND CONTEXT

1.1 This policy has been compiled to assist the Municipality in achieving the following objectives:

- To comply with the laws and regulations applicable to the municipality.
- To set the criteria and processes to be followed by Municipal officials when acquiring and issuing inventory items;
- To serve as a guideline for the overall control inventory items and the safety thereof.

1.2 This policy has been compiled to address control over inventory and complies with the requirements and guidelines as set by the following acts and other documents:

- SALGA – Local Government Financial Best Practise Manual
- The Constitution of the Republic of South Africa, 1996, Act 108 of 1996
- The Municipal Systems Act, Act 32 of 2000
- Municipal Finance Management Act, Act No. 56 of 2003

2 RESPOSIBBILITY

- 2.1 In terms of section 63(1) (a) of the Municipal Finance Management Act (No. 56 of 2003), the Accounting Officer is responsible and accountable for the assets of the Municipality, including the safeguarding and maintenance of those assets.
- 2.2 In terms of section 78 (1) (a)-(b) of the Municipal Finance Management Act (no. 56 of 2003), each senior manager and each official of a municipality exercising financial management responsibility must take reasonable steps within their respective areas of responsibility to ensure-
- i. That the system of financial management and internal control established for the municipality is carried out diligently;
 - ii. That the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently.
- 2.3 The Municipal Manager have the overall responsibility for the effective and efficient management of the inventory.
- 2.4 Therefore Municipal Manager must ensure that all the officials of the municipality to whom the responsibility has been delegated to control inventory adheres to this policy and other applicable laws and regulations to ensure the safety, control over and appropriate usage of the inventory of the municipality.

3 INVENTORY LEVELS

- 3.1 The Director: Finance or delegated Assistant Director should determine the minimum inventory levels (quantities) that the municipality should hold on hand to ensure that there are reasonable resources available to achieve the objectives of the municipality and prevent delays in service delivery.
- 3.2 The minimum inventory levels should be reviewed within two weeks of the beginning of each financial year to ensure that the municipality's cash is managed effectively and prevent abnormal high inventory holding levels.
- 3.3 When determining the minimum inventory levels the following should be taken into consideration by the Director: Finance or delegated Assistant Director:
- The objectives of the municipality for the specific year;
 - The frequency of the usage of the particular inventory item;
 - The accessibility (availability) of the inventory in the market;
 - The storability of the inventory items;
 - To leverage the prevailing market price.
- 3.4 The Director Finance or delegated Assistant Director must annually determine the re-order level, i.e. the point at which an inventory item should be replenished to ensure that there is enough resources to supply the daily activity demand.

4 INVENTORY – PURCHASES AND RECEIVING

- 4.1 Inventory items should only to be ordered once the minimum holding levels are reached or when new inventory lines are requested by Heads of Departments.
- 4.2 The stipulations of the virement policy should be taken into consideration when items of stock are acquired in instances where:
- There is no funding available on the operational budget for the item/s to be purchased,
 - The items requested are new and have not been provided for in the current year budget, and
 - The items are requested in emergency situations.
- 4.3 Purchase and payment of inventory must be in accordance with the guidelines of the Municipality’s Supply Chain Management and Payment Policy, respectively.
- 4.4 The stores clerk must record the inventory received on a pre-numbered good received note and the stock card for such inventory item/s should be update to ensure that the accurate records of inventory are kept.
- 4.5 The items received should be inspected to ensure that the goods received are of correct quantity as ordered and of the quality required.
- 4.6 No damaged/incorrect goods should be accepted and in this circumstances the stores clerk should inform the Chief Admin Officer –Auxiliary services- or delegated official so that a follow up with the supplier is made to ensure that the correct goods in good conditions are received by the municipality.
- 4.7 All inventory items acquired by the Municipality should be captured and controlled through the Municipality’s inventory accounting system, computerised as well as manual, within one working day from the date that the goods were received at the Municipality.
- 4.8 The Stores Clerk is responsible for the completeness and accuracy of the following functions:
- Receiving of items ordered;
 - Inspecting of items received (quantities and quality) to ensure that it agrees to the original order;
 - Generating of a detailed pre-numbered good receive note for each inventory receipt transactions;
 - Updating of store inventory control records (cardex cards) for each inventory receipt transaction;
 - Follow up on long outstanding order and report to the Chief Admin Officer – Auxiliary services;
 - Submitting of original goods receive note to the Chief Admin Officer – Auxiliary services or delegated official for capturing onto the financial system;
- 4.9 The Chief Officer Assets or delegated official is responsible for the completeness and accuracy of the following functions:
- Ensuring that the store inventory records were correctly updated with each inventory receipt transaction;
 - Ensuring that all pre-numbered goods receive notes are accounted for and are correctly captured onto the financial system;
 - Long outstanding orders are being followed up;
 - Proper control exist of store inventory cards, current and old;
 - Captured pre-numbered goods receive notes with supporting documentation are properly filed.

5 INVENTORY - ISSUES

5.1 Inventory items / goods should only be issued by the Store Clerk on submission of a fully completed, signed and authorised pre-numbered inventory issue requisition.

5.2 Inventory issue requisition should be authorised by the Head of the Department or delegated senior official that requires the goods / items.

5.3 The Store Clerk must update the store's inventory control card the moment that the items are issued;

5.4 The inventory issue requisition should be signed by the officials mentioned below as proof of the functions performed:

- Applicant - Person requesting items / goods;
- Head of Department - Authorisation;
- Stores Clerk - Issuing of items / goods;
- Receiver of items / goods - Proof of receipt.

5.5 The Municipality's perpetual inventory systems, computerised and manual should be updated from the detail on the inventory issue requisitions. These functions should be performed by the following officials within a month that the issue transaction occur:

- Computerised system - Officer: Fleet and Asset Management
- Manual system - Stores Clerk

5.6 The Stores Clerk is responsible for the completeness and accuracy of the following functions:

- Issuing of items requested;
- Updating of store inventory control records (cardex cards) for each inventory issue transaction;
- Submitting of inventory issue requisition to the Chief Admin Officer – Auxiliary services or delegated official for capturing onto the financial system;

5.7 The Accountant or delegated official is responsible for the completeness and accuracy of the following functions:

- Ensuring that the store inventory records were correctly updated with each inventory issue transaction;
- Ensuring that all pre-numbered inventory issue requisitions are accounted for, fully completed, authorised and are correctly captured onto the financial system;
- Proper control exist of store inventory cards, current and old;
- Captured pre-numbered inventory issue requisitions are properly filed
- Inventory issue requisitions should all be signed by the stores Chief Admin Officer: Auxiliary Services or delegated official after being captured into the system

6 INVENTORY – CONTROL

- 6.1 Access to the stores area should be limited to the stores clerks only and be monitored by access cameras.
- 6.2 The stores area should be locked during periods when the stores clerks are not present as well as after hours.
- 6.3 The stores area should at all times be clean and the inventory items / goods stacked in such a manner to ensure effective control and easy identification.
- 6.2 The Stores Clerk shall be held responsible for any unexplained shortages that arise from the results of the inventory counts.
- 6.3 Unique inventory codes / numbers must be allocated to each inventory item and be captured in to the computer system, on the stock cards, and on the inventory bins.
- 6.4 Perpetual inventory records should be captured on the financial system as well as on the manual stock cards. The quantities on hand of these two systems should at all times reconcile or be reconciled.
- 6.5 The inventory general ledger control account should be reconciled on a monthly basis to the inventory system balance. This reconciliation should be finalised by the 7th day or closest working day to the 7th day of each month.
- 6.6 The monthly reconciliation control sheet together with the reconciliation must be signed by the Assistant Director: Assets proof of the reconciling function performed.
- 6.7 The reconciliation mentioned above together with the reconciliation control sheet must be reviewed for completeness and accuracy by the Assistant Director: Assets. The review function must be performed by the 10th day of each month or closest working day to the 10th day and the reconciliation and control sheet signed as proof of the reconciliation performed.
- 6.8 The reconciliation mentioned above together with the reconciliation control sheet must be reviewed for completeness and accuracy by the Director: Finance. The second review function must be performed by the 13th day of each month or closest working day to the 13th day and the reconciliation and control sheet signed as proof of the reconciliation performed.
- 6.9 The Assistant Director: Assets must file the fully completed and reviewed monthly reconciliation and control sheet in the relevant section of the monthly audit file by or on the last working day of each month.
- 6.10 The Director: Finance must report to the Municipal Manager, Finance and Audit Committees on the inventory balance by the 20th day of each month or closest working day to the 20th day.
- 6.11 Stock losses / variances in excess of R5 000 at year end must be reported to the Municipal Manager, Finance and Audit Committees as well as Head of Internal Audit for follow up.
- 6.12 The year-end inventory on hand balance should be disclosed in the Municipality's financial statements according to the applicable GRAP standards. Sufficient provision should be made for possible obsolete items.

7 INVENTORY COUNT

- 7.1 Detailed quarterly inventory counts should be conducted to ensure accurate and up to date inventory records are kept. The stock count should be conducted by the end of each quarter.
- 7.2 A detailed year-end inventory count must be performed at the end of each financial year. The Office of the Auditor General must be present during this count.
- 7.3 Any discrepancies / variances identified during the counts should be followed up adjusted for in the financial records of the Municipality by Chief Admin Officer: Auxiliary Services.
- 7.4 Variances in excess of R5 000 at year end should be followed up and results of the follow up / investigation must be documented and reported to the Director: Finance who in turn must report to the Municipal Manager.
- 7.5 The Council's authorisation/approval should be sought to effect the adjustments to the financial records mentioned in point 7.4.
- 7.6 The accounting records (on the financial system and manual inventory records) should be adjusted for any discrepancies identified by Chief Admin Officer: Auxiliary Services and the physical counted quantities must be captured.
- 7.7 Manual inventory records must be dated and signed for each inventory count.
- 7.8 The following should be identified and documented during each inventory count:
- Slow moving/ obsolescent inventory items (To be provided as obsolete);
 - Damaged inventory item (To be excluded from inventory balance);
 - Inventory held for a third party (To be excluded from inventory count).
- 7.9 Detailed and formal inventory count procedures must be developed and approved by the Director: Finance. These inventory count procedures must be applied during any inventory count conducted by the municipality.
- 7.10 The following officials should be present at the inventory count (quarterly counts):
- The stores clerk;
 - fleet and asset management office or delegated official;
 - Assistant Director: assets
 - Four independent counters.
- 7.11 The following officials should be present at the inventory count (year-end counts):
- The stores clerk;
 - fleet and asset management officer;
 - A delegate from the Auditor General South Africa should be invited in writing (only at year end);
 - Four independent counters.
 - Internal Audit unit

- 7.12 The stores clerks and independent counters must perform counts to verify correctness of inventory quantities and stock records quarterly and yearly.
- 7.13 Results from all inventory counts should be kept on permanent file for future reference.
- 7.14 Stock count sheets should be reviewed by the Assistant Director: Assets and Assistant Director: SCM within 5 and 7 days respectively after the physical counting process occurred.