



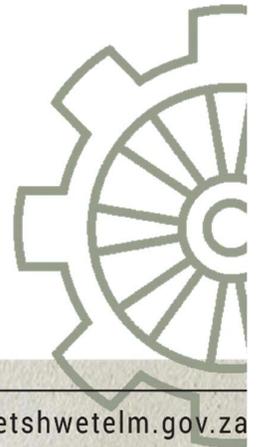
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INVENTORY MANAGEMENT POLICY

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1. Objectives of Inventory Management Policy

- Implement appropriate internal controls and effective inventory management system to ensure that goods placed in **stores are** secured and only used for the intended purposes.
- Determining and setting of inventory levels that includes minimum and maximum **stock levels** mad lead times whenever goods are placed in stock.
- Monitoring and review of **service provider's** performance to ensure compliance with specifications and contract conditions.

2. Inventory Management

- Inventory Management provides for an effective system in order for the setting of inventory levels, placing of requisition for order, receiving and distribution of goods, inventory management, expediting orders, vendor performances, maintenance and contract management.

3. Status Quo of the System used to record Inventory movement.

- There are only one centralized **stores** whereby all stock items are **categorised** according to sections, e.g. cleaning materials, protective clothing, stationery, electrical, water & sanitation, plumbing & building materials, etc.

4. Access to Stores

- The central stores should be operated as a closed store, whereby, suppliers and end-user departments are excluded from stores area except on a specially approved and escorted basis.

5. Procedures and Internal control measures.

5.1 Stock Levels

- The following should be determined to maintain optimum stock levels:
 - Minimum, maximum and re- order levels
 - Slow moving or obsolete stock

5.2 Stock Level Maintenance:

- Monitoring and maintaining of stock levels and creating of stock requisitions to ensure the availability of stock at all times:
 - The store controller or delegated official on **weekly basis** to print out a report of stock items outside minimum and maximum levels.
 - The report informs the stock controller of the items that reached minimum for reordering.
 - The store controller or delegated official will then do physical verification and then generate requisitions for the acquisition of stock materials or alternatively to utilise long term contract awarded.

6. Review of stock levels

- In order to manage the stores operations effectively, end-user departments should continually review their stock holding based on the information such as historical usage and envisaged usage.
- Once yearly the stock level reviews are conducted with end-user departments to maintain accurate minimum, maximum and re-order levels and to ensure the availability of stock/materials at all times for the end-users to reach their set goals or targets.
- Redundant and obsolete stock should be identified and cleared regularly.

7. Purchase requisition for stock items

- Purchase requisition for stock replenishment must be approved by a senior official.

8. Expediting of orders

- The receiving section will be required to monitor and expedite outstanding purchased orders.
- If the delivery conditions reflected on the purchase order are not complied with, it should be followed up with the supplier immediately.
- Reminder correspondences must be forwarded to the suppliers based on the reminder levels that are set in the purchased order and such correspondence entails amongst:
 - Reminder to the supplier of the pending delivery, delivery period, quality and quantity
 - Promises made by the supplier
 - The impact of failure to deliver on time
- The senior or storekeeper must report to the stock controller about the outstanding orders that were not delivered as per agreed delivery dates with the supplier on weekly bases.
- The stock controller based on the information at hand and analysis thereof refer the report of the non-performing suppliers to the contract management section for action to be taken or to the Assistant Director SCM.

9. Receiving and issuing of stock materials

9.1 Receiving of stock

- All orders placed, but still to be delivered are kept in a file in the receiving section, the file must be updated daily with new orders placed.
- Follow –ups should be done on all orders issued and the comments should be recorded.
- All the orders issued should be delivered within 7 days.
- Formal follow up should be made and where the service provider fails to deliver within 14 days, the order will have to be cancelled and the second lowest be called to deliver the goods.
- Stock items which could not be delivered within 7 days because of the complexity of the items or manufacturing process their orders will be treated as an exception.
- All the invoices received for the stock items should be recorded.
- When any item is received at Municipal stores the following procedure must be followed:

- An official order must exist on the financial system for the indicated delivery and the items to be delivered must correspond with the items on the official order.
- The delivery note and original tax invoice must accompany the delivery.
- The receiving storekeeper should do the verification and inspection of what was received against what was ordered – order number, price, quantity and specification correspond to the same information on the delivery note, original tax invoice and statement, and if not all of the above-mentioned is not in place, the items are not allowed to be accepted.
- Damaged goods/stock must not be accepted.
- During the verification and inspection, damaged stock if found, will then communicate with the service provider for return of the items for credit or replacement and a copy of all relevant documentations are attached for reference.
- After signing of the delivery note, original tax invoice and statement, the responsible official must make sure that the bin location as appearing on the order for each product must be written on the carton(s) containing the relevant item for shelving or packing.
- The receiving storekeeper after receiving of a signed delivery note or invoice, he/she then update the stock received on the system.
- After updating of the stock, the receiving storekeeper or delegated official should verify the receipt on the system and shelf before they prepare orders, invoices and delivery notes for approval and must be forwarded to the creditors to effect payments, and do filing for record keeping.
- No stock should be received without an official purchased order unless on exceptional cases and must be communicated to the Stock controller, Assistant Manager: Logistics and the Buyer.
- All the stock items received, must be inspected, verified and captured. Items must then be packed onto the shelves according to the bin location and must be correctly numbered as per stock item numbers or stock catalogue code.

9.2 Issuing of stock

9.1.1 System Requisition

- No issuing of stores items or commencement of the process may take place without properly captured requisition.
- Requisitions are captured by the end-user department's official, with delegated responsibility for creation of the requisitions and the requisition number is allocated by the system.
- The official delegated with the authority to authorise requisitions will then approve the requisition and after approval the items requested are allocated for collection.
- The official responsible for collection of materials will then submit a requisition to the Stores for collection.
- Requisition must be collected within 72 hours' failure to do so the requisition will be cancelled on the fourth day.
- Online issuing of requisitions is done daily by the Stores and printout of requisition which has an issue, vote number, description and quantity.

- When issuing the official responsible will then check the correctness of the quantity of the items requested, the description as per request and the official issued and received the materials must sign the requisition.
- The signed requisitions after issuing are filed for record keeping and audit purposes.

9.1.2 Offline Requisitions

- During standby, power failure, system problem and when the network is down, requesting of stock should be done manually and immediately when the system is up and running, the issuing official must capture all manual requisitions to update the stock on the system.
- All offline requisitions should be captured within 48hours after the system is up and running.
- All offline requisitions should be numbered and recorded on the register of offline requests.
- The copies of the manual requisitions must be attached to the online requisitions.
- At the end of each working day the Stock controller or delegated official must check the manual requisition file to ensure that all manual issues have been processed or captured timely and maintain proper record keeping system for inventory.

10. Damaged Goods

- All damaged goods should not be received from the suppliers must be returned to the supplier for credit or replacement.
- Damaged goods which are noticed during the stock take should be recorded in the damaged goods register and be reported.

11. Stores and warehousing management

- Quarterly stock count and Annual stock taking/counting are conducted. Stock counts are performed to ensure that discrepancies between the physical and the stock figure reflected on the system are reconciled immediately and corrected timely.
- The stock take will take place on the last day the quarter and last month the financial year.
- Stock items which do not form part of the inventory will only be included in the inventory list upon the approval of a formal memorandum by the Director.
- The inventory will be recognised at cost or net realisable value.
- The Office of the Auditor General and internal audit forms part of annual stock taking.

11.1 Procedure for stock taking

(a) The stock controller together with the senior storekeeper confirms that the following are in place at the stores prior to the start of the count:

- before counting of a specific area commences, the stock controller of the stores must ensure that all internal requisitions, return to store, standby requisitions and orders (receipt) have been processed on the financial system. this is to ensure that the correct quantities are counted and verified against the financial system list printed for counting.

- if any of the outstanding purchased orders had been delivered before the stock take, the goods receipt must be processed before the stock take process commences.
- if any of the outstanding purchased orders had been delivered before the stock take cannot be captured on the system for some reason, copies of the invoices must be recorded and attached on the physical inventory document next to the item to be reconciled together with the counted stock.
- if any of the outstanding purchased orders are delivered during the stock take, must be placed in a designated area and be marked. no receipts are permitted to be captured on the system during stock take.
- in case where stores do have items not kept as stock but are kept for end-user departments, these items must be in a designated area clearly marked, and recorded as such.
- all redundant and obsolete stock that has been removed from bins stores and is stored in a designated area in the store together with a list identifying all items in a location to be marked for obsolete and redundant stock, if this items had been deleted from the inventory lists (financial system) but not yet taken to the scrap yard at disposal area. all items where possible must be in boxes and sealed with the signatures of the officials who counted obsolete and redundant items and must be clearly marked in the area. where items are still in the bins must be clearly marked as the bins, the bins must be clearly marked as obsolete /redundant stock.
- in cases were items already had been identified as obsolete and redundant stock, but not been removed from the registers (financial system), these items must remain in their bin locations and be counted as part of the annual stock take.
- all items must be in correct bins and that the description on the corresponds with the items in the bins.

(b) the stock controller responsible for the stores will ensure the following are in place before the official stock take:

- that there is enough manpower (officials) for the stock take consisting of two officials per team.
- that the logistics management of stores to notify all heads of sections and council's external auditors of the stock take date.
- black pens and stickers for stock counts (no pencil figures will be accepted) to be issued to each stock counter team before counting.
- if there is any possibility of overtime, the stock controller must ensure authorization for overtime is approved before the stock take.

(c) during the stock take the following procedures must be adhered to and the stock controller will be responsible for all processes.

- Counting teams be listed and sign an attendance register and each team will consist of two officials.
- Each counting team will receive a count list printed from financial system on the day the stock take commences for the section they are responsible for that is numbered against the officials' names on the list. E.g. Section 01 must be numbered on the list as 1 against the first team – List 2, the second team - List 3 etc.
- All counting teams must start simultaneously with the first count.

- All quantities counted must be written in the space provided next to the item on the financial system list in ball point pen.
 - Each page counted must be signed by both officials responsible for counting on the list as well as the date of the count.
 - The Stock controller will do spot check counts and will write the figures in red pen on the list in his /her possession and sign against each count. The Stock controller will check his counts against the counted items by the teams as control to ensure correct counts. The Stock controller must on a continuous basis ensure that all procedures and processes set out in this procedure are strictly adhered to and where deviations are identified to be rectified immediately.
 - The Stock controller will be responsible for the stock take and must continually be aware of all problems during the count.
 - If the stock count takes place over a few days all stock count lists will be kept by the Stock controller at the end of each counting day.
- (d) During /after the first count had been done, the Stock controller must ensure a discrepancy list are generated for second count and the recount must be done by different counting team that did the first count of the specific section location.
- (e) After the second count the figures must again be compared with the first count and the differences report.
- (f) If the second count corresponds with the system, then the second count is accepted as correct.
- If the second count differs from the system but correspond with the first count, the counted figures are accepted as correct and indicated as surplus or shortage.
 - If the second count and the first count differ from the system, the items must be indicated on a new count list for a third count.
- (g) If the third count must be done, the stock controller with the senior storekeeper and storekeeper will do it. The third count must be done according to the same procedure as stated above.
- (h) The third count will again be compared with the differences report and the first two counts.
- If the third count corresponds with the system, the count is accepted as correct.
 - If the third count corresponds with either of the first two counts, the corresponding figures counted will be accepted as correct and the difference between the counted figure and the system figure must be shown as a surplus or a shortage.
 - If the third count differences still occur the item must be investigated further to identify the problem until a proper solution for the continuous discrepancies are found.
- (i) The final list of all counts (1, 2 and 3) of all surpluses and shortages must be signed by the Senior storekeeper, Storekeeper of the stores and Auditors as confirmation of all parties involved that the figures counted are correct and is the final figures counted, be handed to Chief Financial Officer.

- The final list of surpluses and shortages will not be left in the possession of any party involved in the count for further investigations.
 - The Senior Storekeeper and Storekeeper Can ask for copies of the list direct after the final count.
 - The Stock Controller will after finalizing of the count, take all counting lists, all differences reports, attendance registers with the final stock take list and file all documentation in the file.
- (j) After the stock take a report of such surpluses and shortages has to be generated and be submitted to council for adjustment of the surpluses and shortages or for further steps to be taken, if necessary and/ or authorise stock as redundant or obsolete.

12. Safeguarding of Inventory

- Inventory shall at all times be safeguarded and kept in a secured area.
- Only authorised official will have access to stores and no person other than logistics personnel or any person designated by the Chief Financial Officer, may have control over the administration of inventory.
- All the inventory items shall be adequately insured against loss and damage.
- All theft on inventory items shall be reported to the South African Police Services and Insurance Company.

13. Vendor Performance Management

- Unsatisfactory performance shall be communicated to suppliers in writing compelling the supplier to perform according to the order or the SLA and thus to rectify or to restrain from unacceptable actions.
- Directives regarding action in such cases should appear in the general conditions.
- If the supplier continues with non- performance the matter will be referred to contract management section for them to terminate the contract or order.

14. Reporting

- Stock controller or delegated official should provide a report, which must include information relating to:
 - Total value of monthly issues
 - Total value of stock on hand
 - Outstanding deliveries.
- On a quarterly basis provide a report on stock taking conducted for the quarter, which must include: Surpluses, shortages, damaged and stolen items.