



INVENTORY POLICY

2022/2023

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1. INTRODUCTION

1. This Policy document is deemed necessary in order to facilitate the effective management, control and maintenance of the inventory.
2. This document shall be subjected to further changes.
3. There are two separate stores where municipal inventory is kept, one is the Main Stores situated at Callaway Street in town and the second one is the Electricity Stores situated at Mveliso Street at Vulindlela Heights.

2. AIMS / OBJECTIVES OF THE POLICY

1. The objective of the Inventory Policy is to ensure that the inventory of the King Sabata Dalindyebo Municipality is properly managed and accounted for by:
 - [i] Ensuring the accurate recording of inventory information;
 - [ii] The accurate recording of inventory movements;
 - [iii] Exercising strict physical control over all inventory (*Security, safekeeping, housekeeping*);
 - [iv] Providing correct and meaningful management information in conjunction with other disciplines and functions of inventory management;
 - [v] Compliance with Council's Inventory Procedure;

3. RESPONSIBILITY (PHYSICAL CONTROL OF INVENTORY)

1. The responsibility for the physical control of inventory rests with the Budget and Treasury Office (BTO). The inventory section is inter alia the integral part of Supply Chain Management.
2. Although certain responsibilities and accountability lies solely on the hands of the Chief Financial Officer (CFO), the Assets and Stores Manager is by *delegation the custodian* of municipal inventory.
3. The system, by which the inventory is maintained and managed, is contained in the *Inventory Procedure Manual*.

N.B. Each department shall, when need arises, request inventory from the municipal stores where it is kept.

4.1. AUTHORITY AND DELEGATED POWERS

4.1.1 Heads of Departments must approve/recommend all inventory movements which relate to:

- [i] Acquisition of inventory
- [ii] Transfer of items (inter departmental transfers).

4.1.2 The Chief Finance Officer and where necessary his/her duly designated official shall:

- [i] **Ensure** implementation of the approved Inventory Policy;
- [ii] **Verify** inventory in possession of the Council twice a year;
- [iii] **Receive** from the Inventory Management section a detailed report on the inventory verification exercise;
- [iv] **Keep** a complete and balanced record of all inventories in possession of the Council;
- [v] **Report** in writing all stock imbalances to the Council;
- [vi] **Ensure** that the reconciliation is balanced monthly.

5. CATEGORISATION OF INVENTORY

The categorisation of inventory will be according to warehouses:

1. **Warehouse 1** being general items like, stationery, cleaning material, garden utensils, building material, household material, chemicals, cement and paint
2. **Warehouse 5** being electrical appliances
3. **Warehouse 6** being fuel (petrol and diesel)
4. **Warehouse 15** being Electrical appliances previously expensed and written back into the Inventory Account.

6. ACQUISITION OF INVENTORY

1. The process to be followed when inventory is acquired shall be in accordance with the Council's Procurement Policy, Delegation of Authority Policy and Payment Procedures. This shall apply to all the types of Council's inventory contained in Chapter 11 of Supply Chain Management Act No. 56 of 2003.
2. Depending on the amount of the inventory to be purchased and after the necessary authorization has been obtained, the following procedure for purchasing an inventory shall be followed:
 1. Requisition shall be completed and signed by the head of department or a delegated person to do so;
 3. Quotations or tender copies must be attached to the requisition; as per the procurement policy requirements.
 5. Authority in terms of Delegated Powers to Officials must be reflected on the requisition;
 6. Order to be generated by the Finance Department:
 - i) Delivery note of the inventory purchased;
 - ii) Labeling/Bin coding of the items purchased;
 - iii) Goods Received Notes and Delivery notes must also be attached

- iv) Invoice from the supplier;
- 7. Endorsing of the invoice as a proof of receipt; and
- 8. Payment is generated.
- 9. Budget and Treasury Office must set Inventory reorder levels (which must indicate the Minimum and Maximum levels to be maintained) for all inventory items.
- 10. Dule diligence and care shall be exercised in identifying low and high value items of inventory.
- 11. Minimum levels of high value items shall be ordered, any maximum order shall be based on specific requirement/need to avoid large amounts of cash tied up on inventory.
- 12. A reorder level listing shall be printed by Stores and reviewed on a weekly basis by the Stores Controller.
- 13. Stock levels are also important factor to keep in mind when deciding how much stock shall be ordered at a specific point in time. The minimum level of stock depending on the average usage of stock and the time it takes to deliver the ordered stock.
- 14. The Finance Department will generate a monthly report on inventory movements.
- 15. The reporting must also apply to the following:
 - [i] Slow Moving.
 - [ii] Obsolete
 - [iii] Auctions.
 - [iv] Loss or damaged.
- 16. Heads of Departments:
 - [i] Shall at all times ensure that there are enough funds in the budget before approval of any requisitions.
 - [ii] Shall ensure that the correct vote and description are being used before authorising any requisitions.
- 17. The quantity and quality of the inventory received from suppliers must be according to specifications and information on the order form.
- 18. The Stores Officer must compare the delivery note to the purchase order before accepting the goods.
- 19. The invoice or delivery note must match the supplier's name and order number.
- 20. The Stores Officer must ensure that:
 - a) All delivery notes and or invoices are signed by him/her and the supplier
 - 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
- 21. The inventory received must then be stored in the municipal store by the Stores Officer and the goods receive number and quantities captured on the bin card by the Stores Officer.
- 22. The inventory must be stored in their respective sections once they have been received.

7. ISSUING OF INVENTORY ITEMS

1. **Main Stores Inventory:-**

The goods are issued as requested by various departments. The department requesting the goods shall fill the requisition book, which gets authorized by the user manager and forwarded to storekeeper who checks the availability of goods on the Promun system as well as physically from the bins and fills goods issued on the bin card.

At the stores the storekeeper issuing captures/record the quantity of goods issued on the Bin Card. Storekeeper Issuing issues the goods to the user, who then signs the requisition form (as acknowledgement of receipt of goods). The storekeeper issuing also signs the requisition form as proof that the goods were issued to the user and then captures it on the Promun system. The senior storekeeper then checks the issues and signs on the requisition form.

2. Both stores shall be under the control of the Stores Controller. All stores items shall be guided by levels before **acquisition** of goods.
3. An additional Warehouse 15 (Items that were previously expensed by Electricity Department) shall be issued as per paragraph 7.1 above.
4. The senior storekeeper and security guard then checks the issues and sign on the requisition form.
5. Inventory Losses/theft identified must be reported to the Loss Control Committee for further Investigation.

8. INVENTORY COUNT

8.1. The new system of inventory count shall be implemented for accuracy of stock counting. *There shall be an interim stock count once a year*, as well the inventory count performed annually at year end.

8.2. A counting team shall be requested from the Departments for counting. Before the stock count commences the counting team shall be given the count instructions.

8.3. The municipality shall invite office of the Auditor General to observe the end of year stock count.

8.4. The municipality shall request all departments for people to perform stock counts; the head of every department selects a stock count team. Count teams shall be made up of 2 people, each having a stock sheet identical to his/her partner, one counts after the other and the stock sheets shall be compared for accuracy.

8.5. After correction (when need arises) the counters shall sign on each of the stock sheets, one being the counter the other verifier. Completed stock sheets

shall be reviewed by the Stores controller to ensure that quantities and inventory descriptions are accurate.

8.6. Inventory count is done every year end (June) and an independent team shall be appointed to perform the stock count. Internal staff shall perform the interim inventory count once a year. In the instance of variances between the stock count results and the Promun System (periodic stock records) a recount is performed by one of the teams, in the company of the stores controller or Senior Storekeeper.

8.7. The stock adjustments shall be sent to the Manager Asset and Stores, General Manager -SCM and subsequently to the CFO for authorization and then to the Council for approval.

9. RECORDING OF INVENTORY

9.1. The accounting clerks/accounting, intern shall record the necessary information in the relevant sub-system accounts. Posting of inventory entries/adjustments are done manually in the journal form by Stores Controller, and sent to accounting division for capturing into the system. The accounting clerk shall then update the control account in the General Ledger. Entries for inventory related items are approved by Assets & Stores Manager.

9.2. The Assets & Stores Manager shall review the general ledger and the sub-system for reporting. If there are any adjustments and/or journals that need to be passed, then journal forms shall be filled in the stores section and transferred to the accounting department for processing. The CFO shall review the journals and approve them for processing.

9.3. Inventory reconciliations shall be performed monthly, between the stock listing (sub-ledger) and the general ledger, in case of errors these shall be corrected by means of journals.

9.4. The reconciliations shall be reviewed by Manager Assets and authorized by GM-SCM, then the CFO reviews the journal and approves it before updating in the system.

9.5. Stock is reported in the statement of financial position under current assets.

10. DISPOSAL OF INVENTORY

1. Inventory may be disposed of by auction, as a result of redundancy or damaged
2. The Council shall give fourteen (14) days' notice in the newspaper circulating within its area. Such notice shall also be affixed to all Notice Boards at the Council's office.
3. Council may resolve to donate any of its inventory to organisations / individuals and persons within its area of jurisdiction. It may decide from within itself to establish a committee or delegate the donation function

to the BTO, (Budget and Asset Management Standing Committee) to make proposals.

4. The Municipal Council shall approve the disposal of all inventory that is earmarked to be auctioned.

HOW IS INVENTORY DISPOSED?

1. All inventories are to be disposed of in 3 ways i.e. by sending it to the Municipal Landfill Site after approval by Municipal Manager, ie. if the items are damaged beyond repair, auctioneering and donation. When the items to be disposed of have been identified, a public notice in the local newspaper shall be made inviting applications from charity organisations and schools.
2. After the necessary authorisation has been obtained, the following procedure for disposing of an inventory must be followed:
 1. Stores Controller shall identify the redundant and damaged stock.
 2. Head of Department (BTO) shall seek authorisation from the Municipal Manager for the disposal of the identified stock items
 3. These items will be kept in safe-keeping (municipal stores).
 4. Necessary procedures to be followed by the Asset and Stores Manager.

11. VALUATION METHOD

1. Inventory shall be valued in line with *Weighted Average* method.

12. WRITING OFF OF ITEMS

1. All items to be written off must be approved by Municipal Council, authorised by Municipal Manager after recommendation by the Head of Department.

This policy shall be reviewed annually.

Municipal Manager
N. Pakade

Resolution Number: