

DR NKOSAZANA DLAMINI ZUMA LOCAL MUNICIPALITY



STORES MANAGEMENT POLICY

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1. DEFINITIONS

- 1.1 In this Policy, unless the context indicates otherwise, the following definitions are applied:-

“Accounting Officer” means the Municipal Manager of Dr Nkosazana Dlamini Zuma Municipality;

“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;

“Delegated authority” means the official who is given the authority for relevant functions in terms of the municipality’s written delegations;

“Goods 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;

“Municipality” means Dr Nkosazana Dlamini Zuma Local Municipality;

“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 Stores of SCM 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;

“Stores Assistant” means the official responsible for the requisition, receipt, issue, recording and safeguarding of inventory; and

“SCM Officer” means the official responsible for the cost-effective and efficient management of inventory.

2. OBJECTIVE OF THE POLICY

2.1 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.

3. SCOPE

3.1 This Policy applies to Dr Nkosazana Dlamini Zuma Local Municipality's inventory received by the Store Assistant 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

4.1 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 unauthorized, 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).

4.2 In terms of the following paragraph of GRAP 12:

GRAP Paragraph 14 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

4.3 MEASUREMENT AT RECOGNITION

GRAP Paragraph 15 Inventories that qualify for recognition as assets shall initially be measured at cost

GRAP Paragraph 16 Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition

4.4 MEASUREMENT AFTER RECOGNITION

GRAP Paragraph 17 Inventories shall be measured at the lower of cost and net realization value, except where paragraph .18 applies

GRAP Paragraph 18 Inventories shall be measures 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.

4.5 RECOGNITION AS AN EXPENSE

GRAP Paragraph 43 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.

GRAP Paragraph 44 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; and
- d) Only authorised issues of inventory are made to users.
- 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 an SCM Officer and those of Stores Assistant 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 Each department must set its own inventory re-order levels for all items in consultation with the Chief Financial Officer, the inventory levels must indicate the minimum and maximum inventory that can be maintained.
- 5.3.2 Each department must send its own requisition for all items they need from stores.
- 5.3.3 Due diligence and care shall be exercised in identifying low value and high value items of inventory.
- 5.3.4 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 on inventory.
- 5.3.5 A reorder listing should be printed daily and reviewed by the Assistant SCM Officer.
- 5.3.6 The Stores Assistant must use the listing as a primary source of information to complete the purchasing requisition form, attached hereto as Annexure C.

- 5.3.7 The purchasing requisition form must be completed in duplicate, with one copy kept in the requisition book and an original copy forwarded to the procurement section.
- 5.3.8 A copy of the purchase order form will then be forwarded by the procurement department to the inventory department.
- 5.3.9 Orders must thereafter be filed in date sequence.
- 5.3.10 This file must form the basis for follow up of orders and for matching goods that are delivered to inventory department.
- 5.3.11 The orders file should be reviewed daily by the Stores Assistant 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 Stores Assistant 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 Stores Assistant Supervisor must ensure that:
 - a) All delivery notes 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
 - c) The supplier signs all amendments
- 5.4.5 The inventory received must be transferred to the secured store by the Inventory Supervisor and the inventories must be stored in their respective sections as detailed in 5.5.
- 5.4.6 The inventory record/register/database must be updated on the day the goods are received and authorised by the supervisor.

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 authorized 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 labeled 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. **Details should include the following:**
- a) Order number;
 - b) Quantity received;
 - c) Date of receipt;
 - d) Quantity issued;
 - e) Date of issue;
 - f) Maximum stock level;
 - g) Re-order level;
 - h) Re-order quantity;
 - i) Closing stock; and
 - j) Any other relevant information.
- 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, in accordance with paragraph .35 of GRAP 12, 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 Stores Assistant 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 unauthorized 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 the Stores Assistant or SCM Officer occurs, an inventory count must be conducted.
- 5.5.15 An independent official shall be nominated in writing by the delegated authority to assist the official 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 A, 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 Issue of Inventory

- 5.6.1 Only the Stores Assistant is authorized 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 authorized by the responsibility manager.
- 5.6.4 The Stores Assistant must verify that items ordered match items reflected on the requisition form.
- 5.6.5 The official receiving the inventory must acknowledge in writing, the receipt of inventory.
- 5.6.6 Inventories must be issued and used for official purposes only.

5.7 Obsolete inventory

- 5.7.1 The preparatory work for the disposal of obsolete inventory must be undertaken by the Stores Assistant and verified by the Inventory Supervisor.
- 5.7.2 The Accounting Officer or delegated authority must convene a Disposal Committee for the disposal of obsolete inventory.
- 5.7.3 The Disposal Committee should consist of at least three officials, one of whom must act as the chairperson.
- 5.7.4 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 specialized 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.
- 5.7.5 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 count on a monthly basis.
- 5.8.2 Where the quantity of inventory is too large for the count to be completed on a single occasion, inventory counts may be carried out on a rotational 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 SCM Officer must document in *Annexure B* 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 inventories losses, or the write –up of surpluses.
- 5.8.6 The appropriate disciplinary action must be instituted when applicable.
- 5.8.7 The inventory record/register/database 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 least quarterly 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 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 GRAP 12 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 GRAP 12 paragraph .43,
 - g) The circumstances or events that led to the reversal of a write-down of inventories in accordance with GRAP 12 paragraph .43, and
 - h) The carrying amount of inventories pledged as security for liabilities.

8. POLICY ADOPTION

This Policy has been considered and approved by the Council of **DR NKOSAZANA DLAMINI ZUMA LOCAL MUNICIPALITY** as follows:

ADOPTED BY COUNCIL ON THIS _____ DAY OF _____ 2023

MUNICIPAL MANAGER

DATE

ANNEXURE A**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 inventory has been duly accounted for

Signature of official taking over inventory: _____

Designation : _____

Date : _____

ANNEXURE B

Reference: _____

Enquiries: _____

Date: _____

FINANCIAL DEPARTMENT**Attention:** Chief Financial Officer**QUARTERLY 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:

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