

ALFRED NZO DISTRICT MUNICIPALITY



ALFRED NZO
DISTRICT MUNICIPALITY

INVENTORY MANAGEMENT POLICY

Ref: ANDM/BTO/6/1/2/3/P

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1. OBJECTIVES

- 1.1 The policy aims to achieve the following objectives which are to:-
- a) To ensure continued availability of materials for rendering services in the community
 - b) To ensure that the stock provided is relevant to the needs of Alfred Nzo communities.
 - c) To assist in ensuring that the targeted needs of Alfred Nzo community are met.
 - d) To inform ANDM community and Council about the stock management procedures that are applied in asset management.
 - e) Eliminate any potential misuse of inventory and possible theft.

2. EXECUTIVE SUMMARY

The inventory management policy a document that sets out to answer the question why, what and how about the inventory management. It is a written statement setting out guidelines for requisition, acquisition, management and withdrawal of stock items and is revised on regular basis.

3. DEFINITIONS

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

"Accounting Officer"	means the Municipal Manager for the Municipality as contemplated in section 60 of the Local Government: Municipal Finance Management Act, 56 of 2003
"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
"Cost"	shall comprise costs of purchase, costs conversion and other costs incurred in bringing the inventories to their present location and condition
"Delegated authority"	means the official who is given the authority for relevant functions in terms of the municipality's written delegations;
"Good received note"	means an electronic number which is created on the system to acknowledge the receipt of goods in good condition and correct quantities

<i>“Inventories”</i>	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
<i>“Supply Chain Manager”</i>	shall mean the person appointed as Supply Chain Manager under section 4.1 below.
<i>“Municipality”</i>	shall mean the Alfred Nzo District Municipality ;
<i>“Net Realisable”</i>	Is the estimated selling price in the ordinary course of operations less the estimated costs of completion and estimated costs necessary to make the sale exchange or distribution.
<i>“Obsolete inventory”</i>	means items that have expired, are redundant or damaged;
<i>“Re-order level”</i>	means the level of inventory at which inventory is re-ordered;
<i>“Requisition form”</i>	means a written request to the Inventory Supervisor to supply specified inventory;
<i>“Responsible manager”</i>	means the official responsible for the budget of an organizational 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;
- “Store Controller”** means the official responsible for the requisition, receipt, issue, recording, safeguarding of inventory and cost-effective and efficient management of inventory.

4. LEGAL FRAMEWORK

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 unauthorised, 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).

In terms of the following paragraph of GRAP 12:

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

4.1 MEASUREMENT AT RECOGNITION

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

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

4.2 MEASUREMENT AFTER RECOGNITION

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

Inventories shall be measured 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.

4.3 RECOGNITION AS AN EXPENSE

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 number of inventories recognized as an expense in the period in which the reversal occurs.

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. GOODS AND MATERIALS

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;
- d) Only authorized issues of inventory are made to users; and

- e) Items placed in store are secured and only used for the purpose for which they were purchased.

5.2 A stores record (Bin cards) reflecting full particulars of purchases and issues of goods and materials and the balances of stock on hand in the asset management section shall be maintained by the stores controller.

5.3 An annual stock-take must be undertaken on the last working day of June each year and the report will be submitted to council for approval of discrepancies in July. Quarterly stock takes shall be conducted on all stores at the end of each quarter and the results forwarded to the Chief Financial Officer. A general update will also be performed upon completion of the stock count.

5.4 Requisitions for goods and materials shall be authorized by the relevant line managers or their delegates, provided written notification of such delegation and the extent of their authority is submitted to the stores controller. Specimen signatures of all persons authorized to sign requisitions shall be supplied to the stores controller and updated, coinciding with any alterations or changes. When such persons leave the service of the Municipality, either the stores controller or Assistant Manager – Assets shall be advised immediately.

5.5 The stores controller shall only accept requisitions if sufficient budgetary provision exists to cover a requisition presented to the stores division. The stores controller shall immediately inform the line managers concerned if the budgetary provision is insufficient. In cases of emergency or other exceptional circumstances, the Mayor may authorize unforeseen and unavoidable expenditure where no budget was made. Under such circumstances, the provision of section 29 of the MFMA must be adhered to.

5.6 Subject to the requirements of the Audit Regulations, the Stores Controller shall be responsible for the ordering, custody, issue, and receipt of the bulk materials, forms, tickets, tokens, vouchers and such other stationery as may be necessary.

5.7 Goods delivered to stores when no longer required must be returned to immediately. In the event of the Stores Controller or the delegated person returning

goods or materials to the supplier, he or she shall ensure that the necessary goods returned note is received. Under no circumstances may goods be returned to the supplier without the supplier immediately issuing the goods returned note.

5.8 No surplus goods or materials, no matter the value, may be taken by or sold to any person (including Employees and Councillors) in a manner that is not in accordance with the Supply Chain Management Policy.

6. MANAGEMENT OF INVENTORY AND STORES

6.1 Inventories consists of raw materials, consumables and finished goods, which are valued at lower of costs, determined on the Weighted Average basis, and current replacement cost.

6.2 The key functions of the stores are:

- To promote an adequate storage facility,
- To promote the culture of safeguarding municipal assets,
- To provide effective access to Council's assets for effective use,
- To promote and encourage long life span to Council's assets.

This means maintaining prescribed inventory records and to ensure prescribed procedures are followed in respect of requisition, distribution, returns and management of inventory. Maintain security arrangements at stores. Storage of goods requiring special safety arrangements will be done only on written authorization by Chief Financial Officer (CFO). CFO must determine whether storage of bulk materials outweigh the risks.

8.3 The following principles must be adhered to:

- a) Consolidation of inventory to avoid duplications and redundancy.
- b) Running the stores in an efficient and cost effective manner.
- c) Maintaining an effective item identification system.
- d) Avoid fruitless and wasteful expenditure by disposing redundant material on time.
- e) Designing and implementing an internal control system that seeks to ensure that ANDM minimises theft and avoidable losses.
- f) Items are coded to ensure that each item has a unique number for the purposes of monitoring spending patterns on types or classes of goods and assets.
- g) Stock items are kept in a clearly marked bins located in the store/ warehouse to enable ease of identification at all times.
- h) To prolong the life of goods/stock kept in the stores / warehouse, the

stores/warehouse must be kept clean, safe, tidy and in a systematic condition that complies with the health and safety standards.

- i) Appropriate measures should be taken to minimize the risk, associated with the keeping of stock /goods, as well as management of stock outs.
- j) Ordering and receiving of stock/goods must be done according to the procedure manual.

6.4 The following principles are key:

- a) Check all deliveries to ensure that correct goods and quantities are in a good order.
Namely:-
 - Goods delivery note,
 - Quantity and quality of items received and
 - Value of items received.
- b) Immediately record any shortages and defects, and promptly advise supplier.
- c) Ensure all goods delivered to site are correct, complete and in order.
- d) Ensure all goods procured and to be held in storage are delivered, receipted and recorded.
- e) A Stock register, reflecting the under mentioned detail must be kept and updated daily:
 - Cost of Item
 - Quantities
 - Purchased
 - Issued
 - Returns
 - Stock held at period end
- f) Goods to be issued using a proper requisition book with the following details:
 - Requisition number,
 - Number of items issued and
 - Bin number
- g) Determine maximum levels of inventory holdings and minimum levels for items not readily procurable.
- h) Maintain prescribed accounting and costing systems for issues of inventory, inventory on hand, maximum inventory levels, reorder levels.
- i) Minimum and maximum stock levels, re-ordering procedure, turnover rate of stock items must be reviewed annually to ensure uninterrupted availability of goods.

- j) Ensure that no goods to be held in stores will be bought directly through direct purchasing, as this will affect the determination of both minimum and maximum levels. Any exception will be affected only if consultation between procurement and stores section is done to ascertain if the item is not available at stores.
- k) Determine insurance cover to be obtained for inventory on hand.
- l) Balancing of items in stock

6.5 Slow movement

The stock in each store will be systematically reviewed in order to identify areas of stock that are heavily used and therefore need supplementing, areas where there is a perceived gap in provision and areas which are less heavily used and where provision could be reduced. This is conducted annually and preferably immediately after the year end.

6.6 Damaged and Obsolete

Replacement Cost testing will be done quarterly for all damaged and obsolete goods identified during the stock take and the reviewing of the slow movement processes. A detailed list of both damaged and obsolete goods will be submitted to council for approval for the purposes of disposing them.

6.7 Repair of damaged goods

Stores personnel identify all damaged items to assess whether they are to be repaired or discarded and these items will be presented to the users for final examination before they are either discarded or repaired. Repairing stock item can be much cheaper than replacement. Criteria for repairing stock items include:-

- Future Use,
- Cost of repair against cost of replacement,
- Non-availability of replacement.

6.8 Accounting for inventory

Inventory shall be accounted for in line with the requirement of GRAP12.

6.9 Disposals

Items that are no longer required by the Municipality will be disposed according to the Supply Chain Managed Policy and taking into cognisance section 14 of the MFMA dealing with the disposal of the disposal of the capital assets.

6.10 Accounting for stock that is variable in nature

We recognise that certain stocks that are variable in nature, and thus provision for the allowance of the discrepancies of 2% should be made for those stock items.

7. INTERPRETATION OF THE POLICY

7.1 All words contained in this policy shall have the ordinary meaning attached thereto, unless the definition or context indicates otherwise.

7.2 Any dispute on interpretation of this policy shall be in writing by any party concerned.

7.3 The Municipal Manager shall give a final interpretation of this policy in case of written dispute.

7.4 If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council.

8. PERMANENT /TEMPORAL WAIVER OR SUSPENSION OF THE POLICY

8.1 This policy may be partly or wholly waived or suspended by Municipal Council on temporal or permanent basis

8.2 Notwithstanding clause 8.1 the Municipal Manager / Council may under circumstances of emergency temporarily waive this policy subject to reporting such waiver or suspension to Council.

9. COMPLIANCE AND ENFORCEMENT

9.1 Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

9.2 It will be the responsibility of Council to enforce compliance with this policy.

10. AMENDMENT

10.1 This policy may be amended or repealed by Council, as it may deem necessary.

POLICY APPROVAL

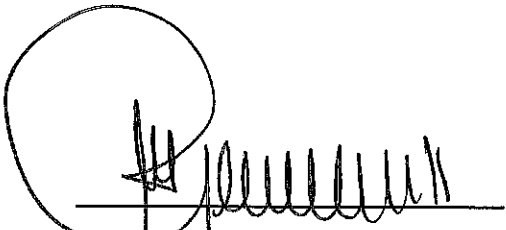
The policy was approved by the Council meeting held on the:

DATE OF REVIEW:

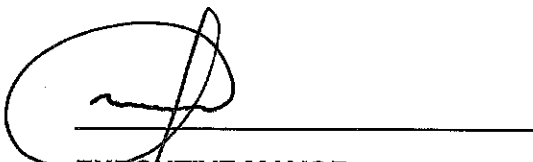
17 May 2024

DATE OF NEXT REVIEW:

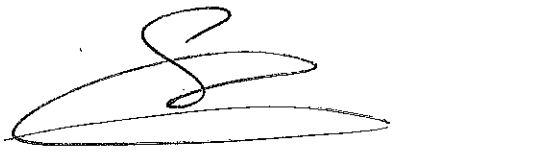
31 May 2025



ACTING MUNICIPAL MANAGER
MRS U.P. MAHLASELA



EXECUTIVE MAYOR
COUNCILLOR V. MHLELEMBANA



SPEAKER
COUNCILLOR S. MEHLOMAKHULU