



agriculture, land reform & rural development

Department:
agriculture, land reform & rural development
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

inventory management policy

1. Purpose

The purpose of this policy is to set clear standards and processes for effective and efficient management and control of inventory within the department

2. Scope

This policy is applicable to all departmental officials

3. Background

In this section: include any background information which provides the context to the policy/procedure

4. Definitions

Accounting Officer: Head of Department or a person appointed in terms of section 36 of the public finance management act (Act 1 of 2009) as amended by Act 29 of 2009

Chief Financial Officer: Official Responsible for the overall financial activities of a Department appointed in terms of Chapter 2 of the Treasury Regulations.

Department: Northern Cape Department of Agriculture, Land Reform and rural Development. (DALRRD)

Inventory: asset/s in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services. (Assets classified as inventory are current assets)

Asset: a resource controlled by the department as a result of past events and from which future economic benefits or service potential is expected to flow to the department

Delegated authority: means the official who is given the authority to for relevant functions in terms of the department's written delegations

Inventor controller: means the official responsible for the receipt, issue, recording and safekeeping of consumable stores

Economic order quantity: means the formula tha determines the point at which the combination or order costs and inventory carrying costs are the least, resulting in the most cost effective quantity to order

Inventory manager: means the official responsible for ensuring that cost-effective and efficient management of inventories items

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: written request to the stores supervisor to supply specified goods

Responsibility manager: the official responsible for the budget of an organizational unit

5. Legislation

The legislative framework provided by the PFMA, regulations and guidelines focuses on improving financial management and service delivery.

The preamble of the PFMA sets out the scope and focus in terms of improving financial management in the public sector and in particular ensuring assets are managed efficiently and effectively.

Section 38 of the PFMA places responsibility on the accounting officer for financial management functions. Section 44 provides for the assignment of powers and duties by the accounting officer to other officials and section 45 details the responsibilities of those other officials.

In particular the above sections of the PFMA make reference to ensuring:

- effective, efficient, economical use of resources;
- efficient and economic management of working capital; and
- management and safeguarding of assets

The Treasury Regulations, 2005, issued in terms of the PFMA give further weight to the above section. In particular, Treasury regulation 10.1 deals with responsibilities for asset management as follows.

10.1 Responsibility for asset management [Section 38(1) of the PFMA]

10.1.1 The accounting officer must take full responsibility and ensure that proper control systems exist for assets and that –

- (a) preventative mechanisms are in place to eliminate theft, losses, wastage and misuse; and
- (b) stock levels are at an optimum and economic level.

10.1.2 The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets.

6. Policy

The objective of this policy is to outline policies and procedures in respect of inventory management which will ensure that inventory is controlled and managed effectively and efficiently.

7. Procedure

7.1. Recording of Inventory

- 7.1.1. All inventory items, including a description of each item, must be recorded in an inventory register
- 7.1.2. In order to maintain updated and complete inventory records, all movement of inventory items must be recorded in the inventory register without delay.
- 7.1.3. Re-order and optimum inventory levels must be documented on the inventory record once they have been determined.

- 7.1.4. Inventory may be procured once the predetermined stock level is reached or when a request is received for an item which is out of stock.

7.2. Receipt of Inventory

- 7.2.1. The quantity and quality of the goods received from suppliers must be according to specifications.
- 7.2.2. The invoice must match the supplier's name and order number. The VAT number must be clearly marked on the supplier delivery note/invoice, where applicable.
- 7.2.3. The inventory controller must ensure that;
 - a. All delivery notes signed
 - b. All incorrect delivery items are rejected and clearly identified on both copies of the delivery note; and
 - c. The supplier signs all amendments.

7.3. Issuing of inventory

- 7.3.1. Only the inventory controller is authorized to issue goods from the storeroom.
- 7.3.2. Inventory items may only be issued in terms of the authorized departmental requisition form (????)
- 7.3.3. The departmental requisition form must be signed by the responsibility manager or delegated official
- 7.3.4. The requisition form must be ruled off immediately below the last item to prevent items being added once the requisition is authorized.
- 7.3.5. The inventory controller must verify that the inventory items ordered match the requisition form.
- 7.3.6. The identified official authorized to submit the departmental requisition form and receive the goods must acknowledge, in writing the receipt of the inventory items.
- 7.3.7. Inventory items must be issued and used for official purposes only.

7.4. Storage of Inventory

- 7.4.1. Inventory items must be stored in a secured, exclusive use area, under lock and key, with limited authorized access only. The responsibility for the custody of the storeroom keys must be allocated by the responsibility manager or delegated authority to the inventory controller, in writing, who is accountable for its use.
- 7.4.2. All inventory items must be stored separately with proper segregation of items.
- 7.4.3. Inventory items must be clearly labeled for easy identification. Inventory bin cards should be used to identify each individual inventory item and to aid in the physical verification of the items.
- 7.4.4. Due diligence and care must be exercised to prevent damage of, or deterioration of inventory items.
- 7.4.5. Due regard must be given to any safety standards which may apply to the storage of certain inventory items.
- 7.4.6. Steps must be taken to ensure the safe custody of inventory items, including precautions

7.5. Inventory count

- 7.5.1. Inventory items must be counted quarterly, in addition to the year end inventory count.
- 7.5.2. The inventory Manager must set a date in advance and notify the responsible official/s, together with the inventory count instructions.
- 7.5.3. No inventory may be received during the inventory count process.

- 7.5.4. All requisitions for the financial year end must be issued by 15 March of each year to facilitate the year end inventory count.
- 7.5.5. The inventory count must be completed and the relevant reports submitted by 31 March.
- 7.5.6. Inventory will thereafter be issued from the first working day of the new financial year.
- 7.5.7. a comparison must be made between the inventory register, bin cards and the physical inventory items.
- 7.5.8. Any discrepancies between the physical inventory and the inventory records must be investigated, and a report submitted to the Chief Financial Officer or delegated authority for write-off of any inventory losses, or write-off of surpluses, as is applicable in terms of the Public Finance Management Act and Chapter 12 of the Treasury Regulations.
- 7.5.9. A certified "stock count" report must be submitted to the Chief Financial Officer detailing the following;
 - a. Description, quantity and value of the stock;
 - b. No movement stock;
 - c. Slow moving stock; and
 - d. Disposal of stock.

7.6. Obsolete inventory

- 7.6.1. The Chief Financial officer or delegated authority may approve the write-off of inventory if satisfied that;
 - 7.6.1.1. The inventory has expired and is redundant; or
 - 7.6.1.2. The inventory is of a specialized nature and has become outdated due to the introduction of better and more effective products; or
 - 7.6.1.3. The inventory cannot be used for the purpose for which it was originally intended; or
 - 7.6.1.4. The inventory has been damaged and rendered useless.
- 7.6.2. All disposed of items must be updated in the inventory records for the purposes of proper management and control.

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8. General

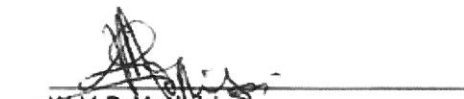
- 8.1. The inventory Manager and inventory controller must be appointed in writing.
- 8.2. A stores catalogue must be maintained and updated as required.
- 8.3. Where a contract exists, purchases will be made against the contract (including government transversal contracts)
- 8.4. Where no contract exists, purchase requisition must be forwarded to the Demand management unit within supply chain management
- 8.5. Stock will be retained for frequently used and critical items that have long lead times

9. Effective Date

- 9.1. this policy is effective from 01 June 2011


T.G. Maruping
Chief Financial Officer
Date: 29/05/2011

Approved by:


W.V.D. Moolib
Accounting Officer
Date: 29 May 2011