



agriculture, land reform
& rural development

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



INVENTORY

POLICY

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.

Scope

This policy is applicable to all department officials

Background

This policy will be used for the measurement of and processes in the inventory system. Successful implementation of the policy will result in compliance with Modified Cash Standard, measurement, issuing and recording of inventory.

Definitions	
Accounting officer	Head of Department or 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 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
Inventory	Asset/s in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services, or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.
	Inventories encompass those goods purchased / produced and held specifically for executing the service delivery of the department.
	Inventories also encompass finished goods produced, or work-in-progress being produced, by the Department. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by a department which are for distribution to other parties through a none exchange transaction;
Asset	A resource controlled by the department as a result of past events and from which future economic benefits or services potential is expected.
Delegated Authority	means the officials whom is given the authority to the relevant functions in terms of the department's written delegations
Inventory controller:	means the officials responsible for ensuring that cost-effective and efficient management of inventories.

Economic order quantity:	the formula that determines the point at which the combination of order cost and inventory carrying costs are the least, resulting in the most cost effective quantity to order
Inventory manager:	the official responsible for ensuring that cost-effective and efficient management of inventories.
Obsolete inventory:	items that have expired are redundant or damaged; each inventory item should be evaluated to determine the redundancy.
Re-order level:	the level of inventory at which inventory is re-ordered
Requisition form:	written request to the stores supervisor to supply specified goods
Responsibility manager:	official responsible for the budget of an organizational unit
Fair Value:	is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction
Net Realisable Value:	is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution
Current replacement cost:	is the cost the entity would incur to acquire the asset on the reporting date

Legislation

The legislative framework provided by the PFMA, Regulations and the guidelines focuses on improving financial management and services 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.
- 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 institutions assets.

Recording of Inventory

Inventories should be recorded as part of the secondary financial information if, and only if

- It is probable that future economic benefits or service potential associated with the item will flow to the department
- The cost or fair value of the item can be measured reliably

The department should record inventory on the day when the risk and rewards of ownership of the inventory have been transferred to the department this include inventory bought for projects, once off inventory purchases and immaterial inventory items.

Measurement at recognition

Inventories that qualify for the recognition as assets shall initially be recognised at cost,

Where inventories are acquired through a non- exchange transaction, their cost must be measured at their fair value as at the date of acquisition.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the department from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of goods, materials and supplies. Trade discount, rebates other similar items are deducting the costs of purchase. Bringing the inventory to its location is also part of the cost.

Subsequent Measurement

This only applies to the recording of inventory as the secondary information (disclosure) in the financial statements.

Inventories will be measured at the lower of cost and net realisable value except where the following applies (consider to rather measure inventory at cost only as record keeping can become complicated for the inventory controllers. Also realisable or replacement values can differ considerably)

Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for a nominal or
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge

Cost Formula

The weighted average method will be used. The weighted average is being calculated on the Logis system. The system calculates by the cost of each item issued as a weighted average of all the items received by the department. Each time inventory is received the weighted average cost per unit is recalculated taking into account the unit cost of the new and the weighted average cost per unit before the new receipt.

Recording of inventory

All inventory needs to be included in the standardised inventory register, including the description and the quantity on hand.

When inventory is received or issued it must be recorded immediately in the inventory register.

The official whom the inventory is issued to need to sign and indicate the reason for requesting the inventory

The re-order inventory levels needs to indicated on the register once it has been determined

Procurement of inventory

Normal SCM procedures are to be followed

Receipt of inventory

If goods are received regarding a project:

1. The official must sign on the invoice or the goods received note as acknowledgment that the goods that were ordered were delivered.
2. Differences need to be noted on the invoice/good received note and both the parties need to sign.
3. The original signed invoice is then forwarded to head office for payment
- 4) The quantity and the cost of the inventory needs to captured on the Logis system.

Issuing of inventory

Each research station/lab etc needs to appoint an inventory controller

Only the inventory controller is authorized to issue goods from the store room.

Inventory issued must be used for official purpose only

Storage of inventory

Inventory items needs to be stored in a secured area with limited authorised access

The responsibility for the custody of the storeroom keys must be allocated by the head of the unit to the inventory controller in writing who is accountable for its use.

All inventory items needs to be stored separately and needs to be labelled for easy identification.

Biological Assets identified for sale as inventory, need to be clearly identified, taken out of the asset register to the inventory register and recorded for sale.

Not all the inventory items will be able to be labelled due to the nature of the department but all inventory needs to be clearly separated and easy identifiable.

Inventory count

Inventory records must be kept up to date daily. The inventory controller must to weekly inventory counts that the manager or supervisor or farm manager should sign off after verifying that the information and quantities are correct

The date of the inventory counts needs to set in advance for the financial year end and at least 2 quarters only. Additional 2 quarters must be counted adhoc.

Inventory counts needs to be counted quarterly and a final year-end inventory count. All the count s will be conducted by the officials at the farms/labs with the presence of an official from the asset unit.

During the inventory count no inventory must be issued

The year-end inventory count must be performed on the 31st march of each financial year.

A comparison between the inventory register and the physical inventory needs to be performed.

Any discrepancies between the physical inventory and the inventory records must be investigated, and a report must be submitted to the Head of the department or delegated authority for write-off of any inventory losses, or write-off of surpluses as is applicable in terms of the PFMA and chapter 12 of the Treasury regulations. Surpluses should be taken up in our records. Records can only be amended after a thorough investigation to explain differences was done.

A after the stock count the head of the unit and the official from the asset unit must sign on the inventory sheets as confirmation that they are satisfied with the inventory count. A copy of these signed counting sheets must be filed at Head office in the asset unit.

A stock report needs to be compiled and must be submitted to the head of the asset division for consolidation and reporting purposes.

The reports used will also be used to record the inventory issued on the LOGIS system.

Obsolete inventory

The Head of the Department or delegated authority may approve the write-off of inventory if satisfied that

- The inventory has expired and is redundant, and have no use to the department or community or other possible users, or
- The inventory is of a specialised nature and has become outdated due to the introduction of better and more effective products; or
- The inventory has been damaged and rendered useless

All disposed of items must be updated in the inventory records for the purposes of proper management control.

All documentation relating to write-offs and disposal must be kept and sent to the asset Unit.

Steps should be taken to either donate inventory if still at all usable to other parties or sell outdated inventory due to replacement with more advanced products.

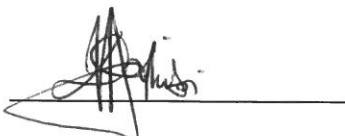
Revision of the policy

This policy will be reviewed and amended where needed, every 2 years or when applicable legislation /accounting standards change.

Effective date

This policy is effective from date of signature up to approved revised policy is issued.

Approved



Mr. WVD Mothibi

Head of the Department

Date: 