

POLICY ON STOCK MANAGEMENT



DRAKENSTEIN

MUNICIPALITEIT • MUNICIPALITY • UMASIPALE WASE
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1. Background

The stores and inventory function shall be centralized and will operate under the jurisdiction of the Expenditure Section. The Expenditure Section must ensure proper financial control; uphold the principle of effective administration, proper stock holding and control, and a high standard of service levels. Assist the PROCUREMENT section in product standardization and ensuring good quality of products.

2. Scope

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

3. Objectives of the Stock Management Policy

The aims of this policy are:

- To ensure continued availability of material for rendering service to the community
- To ensure that the stock provided is relevant to the needs of the Drakenstein community
- To assist in ensuring that the targeted needs of the Drakenstein community are met
- To inform the Drakenstein community and Council about the stock management procedures applied by the expenditure section

4. Accountability

The accounting officer of the Drakenstein Municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure -that the municipality has and maintains effective , efficient and transparent systems of financial and risk management and internal control -that unauthorized ,irregular or fruitless and wasteful expenditure and other losses are prevented. The accountability for the store material lies with the Chief Financial Officer.

However, stock management is the responsibility of all municipal officials led by the Chief of stores and the stores personnel.

5. Goods and Materials

5.1. All goods and materials belonging to the Council and held for future consumption shall be retained in the stores unit of the Expenditure Section.

5.2. A stores record reflecting full particulars of purchases and issues of goods and materials and the balances of stock on hand in the expenditure section shall be maintained by the Chief of stores.

5.3. An annual stock-take must be undertaken at the last weekend of May each year and report will be submitted to council for approval of discrepancies in JUNE. Regular stock-takes shall be conducted on all stores from time to time and the results forwarded to the Chief Financial Officer.

5.4. Stocks shall not, except where the Chief Financial Officer is satisfied that special circumstances exist, be carried by or for any Directorate in excess of normal requirement. Whenever it appears to the Chief Financial Officer that the proposed purchase is necessary, the directorates shall be advised accordingly, and the Chief Financial Officer shall report the matter to the Municipal Manager for appropriate action.

5.5. Requisitions for goods and materials shall be authorized by the relevant Business Unit Managers or their delegates, provided written notification of such delegation and the extent of their authority is submitted to the Chief of stores; Specimen signatures of all persons authorized to sign requisitions shall be supplied to the Chief of stores and updated, coinciding with any alterations or changes. When such persons leave the services of the Municipality, either the Chief of stores or the Head of Expenditure shall be advised immediately.

5.6. The Chief of stores shall only accept requisitions if sufficient budgetary provision exists to cover a requisition presented to the stores Division. The Chief of stores shall

immediately inform the Business Unit 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 provision was made. Under such circumstances, the provisions of **Section 29 of the MFMA** must be adhered to.

5.7. Requisitions for uniforms or protective clothing shall only be executed if they are in accordance with the Council's approved schedule of issue.

5.8. Subject to the requirements of the Audit Regulations, the Chief of stores shall be responsible for the ordering, custody and issue and receipt of the forms, tickets, tokens, vouchers of value, and such other stationery as may be necessary.

5.9. Goods delivered to stores when no longer required must be returned to supplier immediately. In the event of the Chief of stores or the delegated person returning goods or materials to the supplier, he/she shall ensure that the necessary goods returned note is received. Under no circumstances may goods be returned to a supplier without the supplier immediately issuing the goods returned note.

5.10 No surplus goods and materials, no matter what 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

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of costs, determined on the first in, first out (**FIFO**) basis, and net realizable value(**NRV**).

6.1 The key functions of the stores are:

- ❖ To provide an adequate storage facility,

- ❖ To promote the culture of safeguarding Council's assets,
- ❖ To provide effective access to Council assets for effective use,
- ❖ To promote and encourage lifelong Council's assets,

This means maintaining prescribed inventory records and to ensure prescribed procedures followed in respect of requisition, distribution, returns and management of inventory. Maintain security arrangements at stores. Store of goods requiring special safety arrangements will be done only on written authorization of Chief financial officer (CFO):

CFO must determine whether financial advantages of bulk storage outweigh risks.

6.2 Principles of inventory management

- (a) Consolidation of stock items to avoid duplication 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 internal control systems that seeks to ensure that Drakenstein minimizes 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 clearly marked bins located in the store /warehouses 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 in a clean, safe, tidy and 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, to the stores, as well as management of stock outs
- (j) Ordering and receiving of stock must be done according to the Procedure manual.
- (k) Ensuring appropriate standards of internal controls and stores/ warehouse management are in place to ensure goods placed in stores are secured and only used for the purpose they were purchased;
- (l) Ensuring that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes.

The following is also important

i Check all deliveries to ensure correct goods supplied, correct quantities and goods are in order.

Namely:-

- Goods delivery note number;
- Quantity and quality of items received; and
- Value of items received

ii Immediately record any shortages and defects, and promptly advise supplier.

iii Ensure all goods delivered to site are correct, complete and in order.

iv Ensure all goods procured and to be held in storage are delivered, receipted and recorded.

v A stock register, reflecting the under mentioned detail must be kept and updated daily;

- Item description;
- Stores code number

- Transaction date;
 - Cost of item
 - Quantities
 - Purchased
 - Issued
 - Returns
 - Stock held at period end
- vi Goods to be issued using a proper requisition book with the following details:
- Requisition number; and
 - Number of items issued.
- vii Determine maximum levels of inventory holdings and minimum levels for items not readily procurable.
- viii Maintain prescribed accounting and costing systems for issues of inventory, inventory on hand, maximum inventory levels, reorder levels.
- ix Minimum and maximum stock levels, reordering procedures; turnover rate of stock items must be reviewed ANNUALLY to ensure the uninterrupted availability of goods.
- x Ensure that no goods procured to be held in stores will be bought through direct purchasing as this affects the determination of both minimum and maximum levels. Any EXCEPTION will be effected only if consultation between the procurement and stores sections is done to ascertain if the item is not available at stores.
- xi Determine insurance cover to be obtained for inventory on hand
- xii Balancing of items in stock

7. Slow movement

The stock in each store shall 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.

8. Damaged and Obsolete

Net Realisable Value(NRV) testing will be done ANNUALLY 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 purpose of disposing them.

9. 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 a stock item can be a much cheaper option than replacement.

Criteria for repairing of stock items include:

- Future use
- Cost of repair against cost of replacement
- Non Availability of replacement

10. Disposals

Items that are no longer required by the Municipality will be disposed according to the disposal policy of the Municipality which includes the following:

- Auction
- Donation Offers

And taking into cognizance section 14 of the MFMA dealing with the disposal of the capital assets.

TERMS OF REFERENCE

1. Municipal Systems Act (No. 32 of 2000)
2. Municipal Finance Management Act (No.56 of 2003)
2. Treasury regulations (Government Gazette No. 21249 published on 31 May 2000)