

INVENTORY MANAGEMENT POLICY

2024/2026



public works & roads

Department:
Public Works and Roads
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

1. INTRODUCTION

The Department of Public Works and Roads (DPWR) is responsible for the implementation of Inventory Management Policy. This Policy is aligned to the Inventory Management Framework and adherence to the Public Finance Management Act 1 of 1999 as amended.

2. PURPOSE

The purpose of the Inventory Management is to define inventory accounting and draw up an inventory management practice for the department. The envisaged outcome is an efficient and effective control and inventory management tool for the Department.

3. IMPORTANCE OF INVENTORY MANAGEMENT

Inventory management is concerned with accounting and management of assets classified as inventory. Inventory is part of current assets and the closing balance of inventory reported in the Annual Financial Statement as part of disclosure notes. Assets Classified as inventory are current assets, which are often held in warehouse, storerooms, or road camps and issued to jobs, projects or otherwise utilized as and when required for the maintenance of vehicle, repairs, construction of building, roads, etc.. The department needs to ensure that inventory sourced, stored and issued to ensure service delivery of directorates take place without interruption.

4. LEGISLATIVE FRAMEWORK

- 4.1.** The legislative framework provided by the PFMA, regulations and guidelines focuses on improving financial management and service delivery.
- 4.2.** 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.
- 4.3.** 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. Sections 51, 56 and 57 repeat these responsibilities with regard to public entities.
- 4.4.** In particular the above sections of the PFMA make reference to ensuring:-
 - 4.4.1** effective, efficient, economical use of resources;
 - 4.4.2** efficient and economic management of working capital; and
 - 4.4.3** management and safeguarding of assets.



4.5. 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:-

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

4.5.2 The accounting officer must take full responsibility and ensure that proper control systems exist for assets and that:-

4.6 Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse; and

4.7 Stock levels are at an optimum and economic level

4.7.1 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 asset in line with:-

- *Supply Chain Management – A Guide for Accounting Officers / Authorities.*
- *Accounting Guideline GRAP 12 Inventories, National Treasury;*
- *Annual Preparation Guide to Annual Financial Statements (inventory) OAG;*
- *Framework for the preparation and presentation of financial statements, ASB;*
- *GRAP 12, Inventories, ASB;*
- *Other references*
- *Asset Management Framework, National Treasury, April 2004*

5. INVENTORY MANAGEMENT TECHNIQUES

Different inventory management techniques are available to minimise holding cost while ensuring uninterrupted service.

Techniques considered must include:-

5.1 ABC inventory control to classify items for differential management;

5.2 Just in time inventory control;

5.3 Stocktaking;

5.4 physical protection from theft, damage and abuse;

5.5 warehouse and stockroom organisation;

5.6 competencies and training of staff; and

5.7 determining quantities to be held, order size and order frequency



- economic order quantity model
- quantity discount model
- reorder point model

6. DEPARTMENTAL RESPONSIBILITY FOR STORES

The Supply Chain Management unit of the department is responsible for the efficient management of the stores and to ensure that:-

- 6.1 Adequate control measures are implemented and maintained;
- 6.2 all surplus and deficit of stocks are reported and appropriate loss control measures are taken;
- 6.3 Items purchased through stores are/is only used for the purposes it's bought for;
- 6.4 inventory items in the store should be sourced only after analysing actual need; and
- 6.5 stock piling of items with shorter lifespan is not advised/ unless otherwise requested.

7. Inventory management procedures

The Department is expected to draw-up procedure manuals for the following:-

- 7.1 demand forecasting and resource planning for stock items; and this need to be part of the demand plan;
- 7.2 calculation of stock levels, safety stock, reorder quantities and reorder points; as department follow ordering according to need or just in time model only on the basis of actual need inventory items are bought;
- 7.3 stocktake; took place once in every quarter;
- 7.4 restricted access areas; stores are strictly follow access only to access control measures;
- 7.5 follow up on losses and misuse of assets; after each stock take;
- 7.6 to ensure safe operation of storage facilities, plant and equipment; appropriate maintenance materials are bought from original equipment manufacturers (OEM);
- 7.7 recording of orders, receipts, issues, transferred and returns; maintained to reconcile the inventory;
- 7.8 production of inventory management reports; and
- 7.9 reconciliation of inventory records with financial accounts.



8. REPLENISHMENT OF STOCK

An Official who is responsible to replenish stock items must identify inventory items that need to be ordered. Items identified may either be items due for replenishment due to normal usage or specific requests received for specific projects or tasks. The following must be used as methods/tools to assist with the process of determining items to be replenished. Stock replenishment is done regularly and timorously (with due consideration to order and delivery on times) items remaining in the stores considering the minimum stock level. Inventory items bought by the department should be linked to the demand/ maintenance plan, budget. Procurements of all items using budget allocation for inventory must be recorded through relevant store of the district or sub-district office of the Department.

9. RECEIVING OF GOODS INTO STORES

- 9.1 All items received by the department should first pass through the receiving section for checking thereof before being taken into stock;
- 9.2 Items are to be verified in line with delivery note, quotation, and order to ensure the goods received is/are of the same quality, quantity, and specification;
- 9.3 If necessary, the requester of the particular product can be approached to assist with the verification;
- 9.4 Deliveries are to be carefully examined before signing off delivery note. Any evidence of tampering, damage or short delivery is to be investigated immediately and particulars are to be endorsed on the delivery document. In the case short delivery/ partial delivery if undelivered item appear on the delivery slip must be noted not delivered and signed and counter signed by official who receive the delivery and supplier/ supplier representative;
- 9.5 Return of any damaged item must be noted on the delivery note it came with or documented and counter signed by the department and supplier representative; and
- 9.6 When items are received on holders, the external condition of such holders are to be checked, such as damage to the holders or any signs of tampering there with before any documentation is signed. Any damages of packaging must be noted on the delivery documentation. If damages are serious and there is a doubt regarding the condition of the contents the package must be returned to the supplier.



10. STORAGE AND PRESERVATION

- 10.1 Inventory items must be stored in such a way that facilitates safekeeping and verification thereof can be easily done.
- 10.2 In this regard due consideration should be given to the following:-
- 10.3 A Departmental and other legislative requirement for the storage of item the type of items that must be stored, e.g. flammable goods.

11. RECORD KEEPING

- 11.1 All receipts, issues, transfers and any other movement of inventory items must be recorded to ensure paper trail;
- 11.2 Department is using weighted average method for recording issue of stock and for stock-taking.

12. SAFE GUARDING AND NEATNESS

Care should be taken that warehouses / storerooms are operated in such a manner that items are not at risk or that the risk is minimized. The following are a few aspects that must be considered:-

- 12.1. Access to any storerooms must be strictly controlled and must be limited to those who have been duly authorized to have access;
- 12.2. Control measures should be in place for the handling of duplicate keys for the stores;
- 12.3. Firefighting equipment may be available in every store. Such equipment must be serviced regularly and personnel should be trained in the handling thereof;
- 12.4. Security measures such as burglar proofing / security guards must be in place to ensure the safety of personnel and security of stock;
- 12.5. When the change of warehouse personnel is required, a proper handing over should take place; and
- 12.6. Occupational Health and Safety as well as environmental safety aspects should be adhered at all times.

13. RESOURCES EQUIPMENT

- 13.1. Adequate machinery and equipment should be available in the storeroom to facilitate easy handling of stock;
- 13.2. Such equipment may include but not limited to any one or group of the following:-
 - Trolleys



- Stepladders

14. SAFEGUARDING, NEATNESS, SAFETY AND OPTIMAL LAYOUT OF THE STORES.

All store should be safeguarded and locked up at all times. The store will be kept safe and neat at all times. The layout of the store must support the safety of employees at all times, i.e. clear passages for movement and packing. The layout will also ensure clear and easy access, as well as optimum flows for movement. Items will not be stacked so high that they constitute a safety risk.

When goods are moved from one point to another, it will be done safely and with maximum care. Care will also be taken to ensure that employees are not injured whilst moving heavy items.

15. INTERNAL REQUISITION OF INVENTORY ITEMS

When goods are required from the storeroom, the following procedures should be followed:-

- 15.1 Issues and requests will be done daily
- 15.2 An internal inventory requisition form should be filled in, detailing the item required by the official;
- 15.3 All items requested should be authorized / approved by the relevant immediate supervisor and Program Manager;
- 15.4 The Inventory Controller issues the store items according to quantities detailed on the internal requisition form and certifies these issues by signing off the form. The Inventory Controller should amend the quantities on the original request, if there is insufficient stock of store items available;
- 15.5 The recipient must sign for the receipt of the requested store items.

16. RECEIVING OF GOODS INTO STORES

- 16.1 All relevant documents including Inventory Stock Register must be updated immediately when goods are received through purchases and transfer, the goods must checked before accepted;
- 16.2 Supporting documentation must be filed for audit purposes.

17. ISSUING AND TRANSFERRING

- 17.1 All relevant documents and Inventory Stock Register must be updated immediately when goods are received through purchases and transfer, the goods must checked before accepted;



17.2 Issuing voucher (VA2/LD13) must be fully completed for all the issues and transfers of inventory;

17.3 Supporting documentation must be filed for audit purposes.

18. HANDLING OF BIN CARDS/ STOCK SHEETS/ STOCK REGISTERS

18.1 Each item of stock must have a bin card;

18.2 Bin cards must immediately be updated with inventory receipts and issues.

19. STOCK TAKING / COUNTS

19.1 Stock take shall be performed on quarterly bases. Stock take must be complete within the first 2 weeks of the following quarter;

19.2 Stock takes shall be performed by SCM at district level with assistance from head office officials;

19.3 External Auditors may to be invited to witness the stock take/ count at year-end;

19.4 All stock items counted should be recorded on the stock count sheet;

19.5 Counted quantities must be indicated on the stock count sheet in ink;

19.6 The physical items counted must be marked in the stock-sheet as counted;

19.7 At the end of the stock take, the Inventory Supervisor must ensure that all stocks are accounted for (hence the marking off the counted stock);

19.8 Counted quantities must be recorded in the inventory register. All variances identified must be investigated and cleared;

19.9 Final stock sheets must be signed and filed;

19.10 Final inventory register with variances must be signed-off by sub district/service point manager.

20. MANAGEMENT AND CONTROL OF FUEL INVENTORY (DIESEL / PETROL TANKS)

Department will implement control mechanism and an SOP in place to manage, control and regulate fuel expenditure.

21. DISPOSAL OF INVENTORY ITEMS

21.1. Obsolete, expired, redundant and damaged inventory must be identified and cleared on annual basis. The only inventory remaining in the stores at year end stock take/ count, must be useful items, which are frequently requested by officials or useable in future;

21.2. All items to be disposed of must be identified and listed when physical verification take place;



- 21.3.** A write-off memo giving reasons for disposals must be completed and submitted in line with the disposal guidelines in Movable Asset Management Policy;
- 21.4.** Inventory Management will consider the following analysis when considering the method of disposal:-
- 21.4.1 Potential market value or other intrinsic values;
 - 21.4.2 The location and volume of the inventory to be disposed of;
 - 21.4.3 The ability to support other government programmes, and
 - 21.4.4 The cost of the disposal methods.
- 21.5.** Different methods will be used for different types of inventory. It is important to ensure accountability and transparency, as well as due consideration of cost considerations when choosing a method of disposal;
- 21.6.** Disposal options/ methods include transfer for alternate use, rental, sale and demolition;
- 21.7.** Records of all inventory items disposed of or written off with the proper authorisation and records must be available for audit and future reference;
- 21.8.** Inventory records need to be updated to reflect the actual quantity on hand after the disposal.


22. RECORD KEEPING

All files documents must be recorded and maintained in the inventory management unit for Issues, Receipts and Stock Counts.

23. POLICY REVIEW

This Policy shall be reviewed every two years where and/or when a need arises.

RECOMMENDED



MS NE KGANG

CHAIPERSON POLICY REVIEW COMMITTEE

APPROVED



MR MI KGANTSI

HEAD OF DEPARTMENT

20/05/2024

DATE

22/05/24

DATE

