

Inventory Management Policy

Number:	Admin.P015
Responsible Manager:	Executive Manager Finance
Head Policy:	N/A
Legislation:	Local Government Act 2009 Local Government Regulation 2012

• PURPOSE

The policy aims to achieve the following objectives which are to:-

- a) Provide guidelines that employees of Council must follow in the management and control of inventory, including safeguarding and disposal of inventory.
- b) Procure inventory in line with Council's Procurement Policy
- c) Eliminate any potential misuse of inventory and possible theft.

DEFINITIONS

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

- "Consumable Item" An item that has an estimated total annual spend of <\$1000 and is used as a part of everyday activities.
- "FMS" Financial Management System (Attache or similar)
- "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
- "Receiving Officer" the officer responsible for checking goods are received and creating a Goods received note.
- "Purchase Store Officer" an officer employed at the Purchase Store
- "Inventories" are assets for Council use or held for sale
- "Inventory obsolescence" is a provided for items that still have use to Council but have neither moved nor been ordered in the last 12 months.
- "Inventory write off" means stock is deemed unusable and of not value to Council.

- “Net Realisable” Is the estimated selling price in the ordinary course of operations less the estimated cost of completion and estimated costs necessary to make the sale exchange or distribution.
- “Receiving Officer” is the officer responsible for generation of the Goods Received note.
- “Requisition form” means a written request to the Inventory Supervisor to supply specified inventory;
- “Responsible manager” means the official responsible for the budget of an organizational cost centre
- “Stores Officer” is an employee of the Purchase Store in Kowanyama

POLICY STATEMENT

Recognition

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

Inventories that qualify for recognition as assets shall be measured at an average of cost basis, to be calculated by the Financial Management System.

c) freight costs will not be factored into the value held on the FMS.

d) inventory balances will be held in the relevant balance sheet accounts

- Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition
- Consumable items are not classified as stock.
- All recognized stock items shall be allocated to the appropriate stock category and be given a product number in the financial management system
- When inventories are sold, or issued out those inventories shall be recognized as an expense in the same period.

Inventory Procedures

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 authorised issues of inventory are made to users

- e) Items placed in store are secured and only used for the purpose for which they were purchased.
- f) All stock issues are authorized by the responsible manager
- g) Adequate segregation of duties between the requisition, receipt, recording, storage and safekeeping of inventory and the management and control thereof must be maintained to avoid the potential occurrence of errors and fraud.

Inventory Records

- All inventory records are maintained in a specialized perpetual inventory management system
- All products must be ordered in the correct volume measure (eg carton) and issued on an individual product basis. The conversion is maintained by the inventory management system.
- The records should be reviewed by the Procurement Manager regularly to ensure pricing is reasonable and there are not miscoded products or negative stocks held

Ordering of Inventory

- All inventory items must have a product code allocated to the correct stock category. The Masterfile for all items are the responsibility of the Purchasing Manager.
- Minimum inventory level of high value items shall be ordered. Any maximum order shall be based on specific requirement/need in order to avoid large amount of cash tied up on inventory.
- Stocks should be reviewed by the Purchasing Manager from October to December to ensure that adequate stock levels are held to cover the wet season
- All stock purchases must have a requisition generated in the FMS, and be coded to the relevant inventory balance sheet account. Purchases must be compliant with the Procurement Policy requirements for quotes and delegated authorization levels.
- Suppliers of inventory should be determined via either a list of preferred suppliers or via independent quotes.

Receipt of Inventory

- The quantity and quality of the inventory received from suppliers must be according to specifications and information on the purchase order.
- The Stores Officer must compare the delivery note to the purchase order before accepting the goods.
- The Receiving Officer must confirm that the correct quantity of goods have been received in good condition, and then create an electronic Goods Received Note in the FMS The goods received note is the trigger to add the goods to the stock levels.
- Incoming inventory must be located in the correct stores location (isle and shelf).

- The Stores Officer should advise the Receiving Officer on the receipt of stock to ensure that the system stocks are updated in a timely manner

Storage of Inventory

- Inventory must be stored in a secured, exclusive use area, under lock and key
- The Inventory must be covered by the annual insurance policy.
- The area must be used exclusively for the storage of inventory, with limited authorised access only.
- Inventory must be positioned to facilitate efficient handling and stock taking.
- All items must be stored separately, with proper segregation.
- Items with limited shelf life must be rotated on a first in first out basis, to reduce the occurrence of expired or obsolete stocks.
- Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.
- Due regard must be given to any safety standards which may apply to the storage of certain inventories.
- Precautions must be taken to protect against loss or theft.
- No unauthorised persons/officials shall obtain entry to premises, buildings or containers where inventory is kept, unless accompanied by a Purchase Store Officer.
- The following fire protection precautions must be adhered to:
 - a) Inventories of an inflammable or dangerous nature shall be stored and handled in such a manner that persons or property are not endangered and in compliance with the requirements of any local authority;
 - b) The area must be clearly signposted; and
 - c) Fire extinguishing equipment must be placed in the area where inventories are held and must be serviced regularly.

Issuing of Inventory

- Only a Stores Officer is authorised to issue pick and issue inventory from the stores.
- Inventory must only be issued if an approved requisition form is provided, signed by the responsible manager.
- Requisition forms **must not** be added to after the line manager has signed
- All BAS related issues must include the relevant work order number
- The Stores Officer must process all stock issues daily in the FMS, ensuring that the correct product code and quantities are issued to the correct cost centre.
- The Management Accountant or Purchasing Manager will post the daily issues into the general ledger after checking it for accuracy and omissions

Obsolete Inventory and Write offs

- The preparatory work for the disposal of obsolete inventory must be undertaken by the Purchasing Manager.
- Purchase store officers must review perishable stock monthly to ensure its usage and prevent spoilage.
- In June annually there will be a provision made for inventory obsolescence, approved by the Executive Manager Finance, and a review for potential inventory write offs.
- The Executive Manager Finance may approve the write-off of inventory, if satisfied that: -
 - a) The inventory has expired and is redundant;
 - b) The inventory is of a specialized nature and has become outdated due to the introduction of upgraded and more effective products;
 - c) The inventory cannot be used for the purpose for which it was originally intended; or
 - d) The inventory has been damaged and is rendered useless.
- All disposed of items must be updated in the inventory records by the Purchasing Manager or Management Accountant.
- The method of physical disposal of written off inventory will be determined on a case by case basis, determined by the Executive Manager Finance or the Chief Executive Officer

Inventory Counts / Stocktakes

- The stock take procedure must be followed (Attachment A)
- Cyclical inventory counts will be carried out on a six monthly basis at a minimum, with a full inventory count at the end of each financial year.
- All stocktake supporting documentation will be held by finance once entry into the financial management system has taken place.
- A report must be submitted at each stock count to the Executive Manager Finance detailing the following:
 - a) Any inventory shortages or surpluses and the reasons for such;
 - b) Any inventory deficits proposed to be written-off; and
 - c) Any obsolete inventory items.
- All deficits will be investigated by the Procurement Manager and reported to the Executive Manager Finance.
- Any suspicions of fraud will be referred to the Chief Executive Officer for further action

Review

This policy replaces any prior policies, and is to remain in force until otherwise determined by Council.

Resolution

Adopted by Council on the 15 November 2017, commenced on 15 November 2017.

- **Approval**

This policy was duly authorised by Council as the Kowanyama Aboriginal Shire Council November 2017 and shall hereby supersede any previous policies of the same intent.

Chief Executive Officer, Fabian Williams

Date

15 November 2017

Mr Fabian Williams



Chief Executive Officer

Attachment A -Stock Take Procedure

1. Purpose

The purpose of this procedure is to describe the activities involved in the stock take of inventory.

2. Scope

The scope of the activities defined in this procedure are applicable to stock takes at the Purchasing Store, Post Office, Batching Plant and Bakery, or any other area that holds inventory stocks.

Diesel and Aviation fuel stock takes are outside the scope of this procedure.

3. Responsibilities

The Executive Manager Finance (EMF) is responsible for managing the process in coordination with the Management Accountant (MA), Purchasing Manager (PM) Departmental Line Managers (DLM). All departments should cooperate with the Finance Department to adhere to this process.

4. Activities

The type of stock counts can be either;

1. Rolling (small sections counted at one time) to ensure all sections counted at least twice per annum.
2. End of Month for the purpose of calculating Cost of Goods Sold (COGS)
3. Full end of year counts to validate inventory holdings in balance sheet accounts

a. Stock Take - plan

To be prepared by Finance staff and must include:

- Location of the stock to be counted
- Stock count date
- Identity of staff who will complete the count
- Plan/map of stores area to ensure all stock counted

- Impact on operations e.g. Stores / Bakery closure

b. Stock Take – pre-count preparation.

- Notify all Council staff / the Public of any operational impact eg closure of departments, reallocation of staff
- All stock issues prior to count to be input into Powerlink
- Stock issues to be posted in Powerlink
- All inventory related goods received notes (GRN's) to be entered in Attache by the Purchasing Manager
- Review of all outstanding orders
- Inventory related invoices to be posted into Attache by Accounts Payable
- There should be no further stock related GRN's or invoices entered in Attache until the stocktake process has been completed, as advised by EMF or Management Accountant
- Stock Count sheets to be prepared and printed onto coloured paper for ease of identification.

c. Stock Take - physical count

- DLM to Agree who will count and who will record
- Agree how stock will be counted e.g. left to right and top to bottom
- Sheets to be signed by both counters and recorders
- Obsolete stock (e.g. not fit for purpose/out of date) to be highlighted on count sheets
- As each zone complete, seal zone to ensure no movement until advised by the Finance Department

d. Stock Take - Attache update, review and reconciliation

- PM enters stock counts into Attache
- Stock Variance Report to be reviewed by MA.
- Recounts, if required, to be done by one member of the count team and a controller, any amendments must be signed
- Significant stock variances to be further reviewed by with the DLM.
- EMF to approve final Stock Variance Reports
- MA receives approved variance report and updates stock take in Attache
- Obsolete stock identified at physical count to be reviewed and approved for write-off by EMF prior to update in Attache
- Finance to reconcile GL balances to Attache Product Status report balances
- Finance advises concerned departments that stock take is complete



- EMF approves the disposal of the obsolete stock

e. Stock Take - process improvement review

- Major stock count variances to be investigated by Finance
- Reasons for Obsolete stock to be identified
- Inventory Management processes to be reviewed and updated to minimise risk associated with stock losses and obsolescence
- Stock Take procedure to be updated as applicable

Procedure Authorised by: Executive Manager Finance