

STANDARD OPERATING PROCEDURE FOR INVENTORY STOCK COUNT, VERIFICATION AND RECONCILIATION

PURPOSE

This document prescribes the procedures to be followed during the counting, verification and reconciliation of inventory items of the Western Cape Education Department (WCED).

During the verification process, inventory items kept in a warehouse are physically checked and compared to the records on LOGIS and adjustments made where necessary. This process also verifies the stock records that in turn reflect values in the financial accounts, reduces the possibility of theft and fraud and reveals any weaknesses in management of the inventory items. The stock take and verification process should be viewed as an opportunity to continuously improve the accuracy, efficiency of stock control and inventory management. Any discrepancies discovered during the stock take and verification process highlight the need to address the following risk areas:

- i. Errors made by staff and the need for training.
- ii. The occurrence of theft and the need to tighten controls; and
- iii. Changes required to existing processes and procedures.

TYPES OF PHYSICAL VERIFICATION

A complete verification of all the inventory items of the WCED will be performed annually by the Asset Management Component in liaison with the appropriate cost centre. Such stock takes will be scheduled and prior approval for such stock takes will be granted by the Head of the Branch Finance by means of a stock take plan.

Spot checks will be carried out at least quarterly or more frequently as the need might arise. Spot checks will be carried out in an unscheduled manner and will be conducted when, but not limited to:

- i. Theft of inventory items has occurred
- ii. Inventory items have been damaged
- iii. Handover between Store Managers
- iv. Discrepancies are expected

A spot check can be carried out at any time by the Store Manager to ensure that inventory items under his/her control is correct and in accordance with the latest system totals. Any discrepancy found must immediately be reported by the Store Manager to his/her supervisor for further investigation. The ensuing process will be in accordance with the prescripts of the loss control procedure of the WCED.

After completion of the inventory stock take for the financial year a stock take certificate will be compiled by the Asset Management Component and referred to the Head of Department for signoff.

RESPONIBILITIES OF VARIOUS ROLEPLAYERS

Staff members from the Asset Management Component will be responsible for the physical verification of inventories on an annual basis. This will include the administrative responsibilities, planning and execution of the physical verification process. A representative from the applicable Cost Centre will accompany staff in the execution of this process. Once the stock take has been completed, the results will be presented to the Cost Centre Manager. Cost Centres will be responsible for the reconciliation of the results and the investigation and furtherance of any shortages and surpluses resulting from the stock take process. Cost Centres will also be responsible for the in-year monitoring and reporting requirements for the annual financial statements, prescribed in terms of the applicable accounting standards.

Store Managers will be responsible for the day to day activities of managing the stores, inclusive of receiving and issuing of inventory items, etc. Store Managers will conduct spot checks on a needs basis, as prescribed above. Store managers will however not be part of the annual inventory stock take, in order to adhere to the principle of the segregation of duties.

The Head of Department appoints the Stock Count and Verification Team that executes the annual stock take. All members are appointed in writing. The Store Manager who is responsible for store inventory and stock cannot be responsible for the count at the store that he/she is responsible for but can assist the Stock Count and Verification Team in an advisory capacity.

INVENTORY STOCK TAKE COUNT AND VERIFICATION

Before the execution of the physical inventory stock count the necessary planning activities will be done. The following will be taken into consideration:

- i. Assess the quantity of stock and accessibility of the items.
- ii. Determine an estimated timeframe within which the physical verification will be completed.
- iii. Determine dates for the verification process.
- iv. Allocate staff to the stock take teams.
- v. Once the above has been determined, a stock take plan will be compiled and sent to the Deputy Director- General: Corporate Services for approval.

- vi. Once approval has been obtained, the following activities will follow:
- vii. Notify all applicable parties of the inventory stock count and verification process in writing.
- viii. Inform all parties on the closure of the stores for the duration of the stock take.
- ix. Check that all issues and receipts are captured.
- x. Check that stock are packed out and easy accessible for verification.
- xi. Check that appropriate stocks are in proper bins.

The physical counting and verification of inventory items will now commence, consisting of the following:

- i. The LOGIS report (RR001/Stock Take Form) in count sequence must be used when conducting the inventory stock count and verification.
- ii. Ensure that a report has printed for every cycle, compare printed reports to list of cycles found on LOGIS.
- iii. Issue RR001/Stock Take Form reports to Stock Count and Verification Team to conduct the physical count and verification.
- iv. All count and verification information should be noted on the RR001/Stock Take Form Report.
- v. Writing must be done in black ink.
- vi. Officials to verify that the following information is correct and correspond with the stock:
 - a. Description of stock
 - b. Quantity of stock
- vii. The officials responsible for the count of the specific cycle should sign the RR001/Stock Take Form and report once the stock in the cycle has been counted.

Once all stock in the Store area have been counted, the reconciliation process commences. This entails comparing the RR001/Control Report to the RR001/Count Report. Any discrepancies found will warrant further investigation.

TREATMENT OF DISCREPANCIES

Discrepancies are the result of shortages and/or surplus stock found not equal to the quantity that appears on the RR001/Control Report. Once all discrepancies have been identified, each individual case should be identified and addressed in terms of the loss control procedure. Discrepancies will be captured as soon as the investigations have been finalised. All particulars and supporting documentation must be kept on file for auditing purposes. Discrepancies (surpluses, shortages and

movements) shall, as soon as they have been confirmed, be taken on to the log form and particulars thereof shall be captured immediately on LOGIS which shall be finalised upon receipt of the approval of the delegated authority.

Surpluses could be the result of:

- i. A receipt not captured but put into bin location
- ii. An issue captured but not physically removed from bin location
- iii. Using the incorrect unit of issue/receipt
- iv. Damaged items written off the system but not removed from the shelves

Shortages could be the result of:

- i. An issue physically removed from bin location but not captured
- ii. A receipt captured but not put into bin location
- iii. Using incorrect units of issue/receipt
- iv. Theft
- v. Damaged items removed but not written of the system

Investigations should be launched when shortages are discovered. The initial investigation should be undertaken by the applicable Cost Centre. When an item is not found and it is suspected that theft could have occurred, the matter should be reported to the South African Police Service.

As soon as the outcome of the investigation into shortages is completed, the following procedures are executed:

- i. Transactions are captured on LOGIS.
- ii. A Balance Adjustment transaction is used to adjust and correct stock.
- iii. The Non Authorised Stock report Surpluses, Shortage Redundant Report should be printed and the results of the inventory stock reconciliation should be submitted to the delegated authority.
- iv. Authorisation for approval is granted by the delegated authority.
- v. Once the documentation is signed and received from the delegated official transactions are authorised accordingly on LOGIS.
- vi. The Authorisation of Balance adjustment transaction and completion will update the accounting records automatically and reflect the correct values of available stock at year end.

- vii. When all Balance Adjustment authorisation transactions have been authorised on LOGIS, print all the RR001/Control report Variance Report as evidence to reflect the updates.
- viii. Print the RM021 – Authorised Surpluses and Shortages.
- ix. File all documentation per financial year for audit purposes which must include the following:
 - a. LOG 4 – Balance Adjustment
 - b. RM031 and RM021 report for the reporting period
 - c. Any supporting documentation

REPORTING

After all of the above processes have been completed, the Asset Management Component will compile a report to the Head of Department, stating the following:

- i. A complete inventory stock count for the financial year has been conducted.
- ii. The information as provided is a true reflection of the inventory stock within the WCED.
- iii. The inventory verification process for the financial year is complete.