

MOSES KOTANE LOCAL MUNICIPALITY INVENTORY MANAGEMENT POLICY



Original Council Approval		
Date of Council Approval	03/06/2026	
Resolution Number	151/06/2026	
Effective Date	01 July 2026	

1. LEGISLATIVE AND REGULATORY FRAMEWORK

This Policy is developed in accordance with:

- Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)
- Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- Municipal Asset Transfer Regulations
- GRAP 12
- Municipality's Supply Chain Management Policy
- Municipality's Delegations Framework
- Municipality's Risk Management Policy

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- Municipality's Fraud Prevention Plan

2. POLICY PURPOSE

The purpose of this Policy is to:

- Ensure effective, efficient, economical and transparent management of inventory;
- Safeguard municipal inventory against loss, theft, misuse or damage;
- Ensure compliance with GRAP 12 for financial reporting;
- Strengthen internal control systems;

3. POLICY PRINCIPLES

Inventory management shall be guided by the following principles:

- Accountability
- Transparency
- Proper segregation of duties
- Value for money
- Sound risk management
- Proper record keeping and audit trail
- Compliance with applicable legislation

4. ROLES AND RESPONSIBILITIES

4.1 Municipal Council

- Approves the Inventory Management Policy.
- Exercises oversight through Committees.

4.2 Accounting Officer (Municipal Manager)

In terms of Section 62 and 63 of the MFMA, the Accounting Officer must:

- Ensure effective internal controls.
- Safeguard municipal assets.
- Prevent irregular, fruitless and wasteful expenditure.
- Ensure proper inventory management systems are implemented.

4.3 Chief Financial Officer (CFO)

The CFO must:

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- Implement this Policy.
- Ensure GRAP 12 compliance.
- Maintain accurate inventory accounting records.
- Oversee inventory reporting.
- Ensure quarterly and annual reporting compliance.

4.4 Principal accountant assets

- Ensure compliance within directorates.
- Authorise inventory write-offs within delegated limits.

4.5 Store Officer

Responsible for:

- Receipt, issue and recording of inventory;
- Safekeeping and storage;
- Maintenance of bin cards and inventory registers;
- Reporting discrepancies.

4.6 Responsibility Managers

- Monitor usage within approved budgets.
- Approve requisitions.
- Prevent misuse of inventory.

5. INTERNAL CONTROL FRAMEWORK

To ensure compliance with MFMA and audit standards, the following controls are mandatory:

5.1 Segregation of Duties

The following functions must be performed by different officials:

- Requisition – Stores Official
- Approval – Manager assets
- Procurement - SCM

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- Receipt- Stores official
- Recording- Stores official and Expenditure Official
- Safekeeping – Stores official
- Inventory counting- Stores officials
- Write-off approval – Principal accountant Assets & Chief financial officer

5.2 Inventory Ordering Controls

- Minimum and maximum stock levels must be formally approved.
- High-value items must be tightly controlled.
- Reorder listings must be reviewed daily.
- Procurement must comply with the Supply Chain Management Policy.

5.3 Receipt Controls

- Goods must be verified against purchase orders.
- Quality and quantity must be confirmed.
- All delivery notes must be signed.
- Inventory records must be updated immediately.
- Three-way matching (PO, delivery note, invoice) must occur before payment.

5.4 Storage Controls

Inventory must:

- Be stored in a secure, access-controlled environment;
- Be insured;
- Be clearly labelled;
- Be arranged using FIFO where applicable;
- Be protected against fire and theft;
- Have restricted key control procedures.

A formal handover process must occur when Store Officers change.

5.5 Issue Controls

- Inventory may only be issued on approved requisition forms.
- All issues must be acknowledged in writing.
- No alterations may be made after authorisation.
- Inventory must only be used for official municipal purposes.

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6. INVENTORY COUNT AND VERIFICATION

6.1 Frequency

- Quarterly inventory counts are mandatory.
- A full annual count must be conducted before year-end financial reporting.

6.2 Independent Verification

- An independent official must be present during year - end counts.
- Results must be documented and signed.

6.3 Reporting Discrepancies

- All shortages and surpluses must be investigated.
- A formal report must be submitted to the CFO.
- Material losses must be reported to:
 - Accounting Officer
 - Internal Audit
 - Loss Committee
 - Executive Committee

6.4 Consequence Management

Where negligence, misconduct or fraud is identified:

- Disciplinary action must be instituted.
- Criminal charges may be laid.
- Recovery of losses must be pursued.

7. OBSOLETE AND REDUNDANT INVENTORY

Loss Committee must:

- Review obsolete items;
- Recommend write-offs;
- Ensure compliance with SCM disposal procedures;
- Ensure fair, transparent disposal methods.

Write-offs must be approved by the delegated authority.

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All disposals must be properly recorded in the inventory system.

8. FINANCIAL REPORTING AND GRAP COMPLIANCE

In accordance with GRAP 12:

8.1 Recognition

Inventory shall be recognised when:

- Future economic benefits/service potential is probable; and
- Cost can be measured reliably.

8.2 Measurement

- Initially measured at cost.
- Subsequently measured at lower of cost and net realisable value.
- Distribution inventory measured at lower of cost and replacement cost.

8.3 Disclosure Requirements

The Annual Financial Statements must disclose:

- Accounting policies applied;
- Total carrying amount;
- Write-downs and reversals;
- Inventory recognised as expense;
- Inventory pledged as security (if applicable).

9. RISK MANAGEMENT

Inventory-related risks include:

- Theft
- Fraud
- Obsolescence
- Overstocking
- Understocking

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- Misstatement in financial records

The Municipality must:

- Include inventory risks in the Risk Register;
- Perform risk assessments annually;
- Implement mitigation controls;
- Conduct surprise inspections.

10. MONITORING AND OVERSIGHT

This Policy is subject to:

- Internal Audit review;
- Audit Committee oversight;
- Auditor-General review;
- Council oversight.

Quarterly compliance reports must be submitted to the CFO.

11. RECORD KEEPING

Inventory records must:

- Be maintained electronically where possible;
- Contain full audit trails;
- Be retained in accordance with the Records Management Policy;
- Be available for audit inspection at all times.

12. POLICY REVIEW

This Policy shall:

- Be reviewed annually;
- Be amended when legislation changes;
- Be approved by Council.

13. EFFECTIVE DATE

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This Policy becomes effective upon approval by Council