



MAKHUDUTHAMAGA MUNICIPALITY
INVENTORY MANAGEMENT POLICY AND
PROCEDURES

MAKHUDUTHAMAGA
LOCAL MUNICIPALITY

FINAL INVENTORY MANAGEMENT POLICY AND
PROCEDURES

2026/27



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

Contents

1.	INTRODUCTION.....	3
2.	RESPONSIBILITIES	3
4.	DEFINITIONS	4
5	PROCUREMENT OF INVENTORY MANAGEMENT	5
6	INVENTORY VALUATION	6
7	INVENTORY COUNTING	8



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

1. INTRODUCTION

(a). It is most important for the Manager responsible for inventory to fully understand the accounting system as it relates to inventory, before a physical inventory is taken. This includes an understanding of how the inventory is updated returns to vendors, transfers from inventory to internal use, adjustment for damages or defective product.

(b) The inventory general ledger balance is affected by every purchase and utilisation transaction that is processed through the ledger.

(c) To maintain accuracy, high value items of inventory should be counted and then reconciled to the inventory General Ledger balance. Taking a complete physical count of all inventory items is one way to ensure that the balance is accurate

2. RESPONSIBILITIES

a) Supply Chain Management is responsible for forwarding all the paperwork to accounting to ensure that inventory is documented and accounted for properly

b) Warehousing Personnel are responsible for the custody and safekeeping of inventory. This includes ensuring that all items in the inventory are properly accounted for, that proper procedure are followed for the movement of all inventory, and that all paperwork is forwarded to Accounting in timely manner for the proper recording of all inventory transactions.



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

- c) Accounting and Accounts payable are responsible for accounting for and processing all paperwork received in a timely manner in order to maintain an accurate inventory status.
- d) The Chief Financial Officer is responsible for counting / recording procedures, cut-off procedures and for ensuring proper inventory control.

3. Object of Policy

The objective of this policy is to regulate the management, administration and control of inventory in the municipality.

4. DEFINITIONS

4.1 **Cut-off** refers to procedures, which ensure that all items counted are owned by the company and available for sale. In other words, an item returned to stores need to be "returned" to inventory by the accounting systems before it is physically counted. Similarly, a defective item waiting to be sent back to the vendor need to be taken out of the accounting system and segregated from any possibility of being counted during physical inventory.

4.2 **Net realisable value** is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

4.3 **Current replacement cost** is the cost the municipality incurs to acquire the asset on the reporting date.



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

4.3 **Inventories** are assets:

- (a). in the form of materials or supplies to be consumed in the production process
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services
- (c) held for sale or distribution in the ordinary course of operations, or
- (d) in the process of production for sale or distribution

5 PROCUREMENT OF INVENTORY MANAGEMENT

5.1 All tenders will be handled in accordance with Council's procurement policy

5.2 No contract shall be binding on Council unless it is in writing and the acceptance thereof signed by an official authorised to do so by Council.

5.3 The Buyer for Council will have the discretion to determine the upset price, for the procurement of goods or services.

5.4 Maximum and minimum stock and reorder levels shall be determined in the manner prescribed by the Accounting Officer. Stocks shall not be held in excess of normal requirements, except where the Accounting Officer, or where the Accounting Officer does not manage purchases and supplies, the Accounting Officer and the Departmental Manager responsible for stores, agree that special circumstances exist.



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

5.5 The Departmental Manager concerned shall only issue stores and material against a requisition signed by an official authorised to do so.

5.6 Except where the Accounting Officer is of the opinion that special circumstances exist, material shall not be carried by any Department in excess of normal requirements as ascertained by experience.

5.7 No stock items shall without the approval of the Accounting Officer be purchased out of imprest moneys held by Municipality.

5.8 Any adjustments to stock records shall be authorised in the manner prescribed by the Accounting Officer or Council, as the case may be, provided that any adjustments which the Accounting Officer deems to be material, and all cases involving negligence or identifiable theft shall be reported to Council and, if applicable, dealt with as prescribed by the Municipal Finance Management Act.

6 INVENTORY VALUATION

6.1 Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, and then their costs are their fair value as at the date of acquisition.

6.2 Subsequently inventories are measured at the lower of cost and net realisable value.

6.3 Inventories are measured at the lower of cost and current replacement cost where they are held for;



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

- a) distribution at no charge or for a nominal charge; or
- b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

6.4 The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

6.5 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

6.6 The cost of inventories is assigned using the average weighted cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

6.7 When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

6.8 The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



MAKHUDUTHAMAGA MUNICIPALITY

INVENTORY MANAGEMENT POLICY AND PROCEDURES

7 INVENTORY COUNTING

7.1 The Municipality must at least once in every financial year carry out a stocktaking covering all surplus material under his control and shall report to the Accounting Officer the quantity and value of any discrepancies and breakages in surplus material revealed by such stocktaking, together with the reasons for such discrepancies and breakages. In addition, the Accounting Officer shall from time to time, and on such basis as he considers adequate, verify the existence of all material, whether they are under his control or under the control of another Department.

7.2 Generally, a complete physical inventory is taken at year-end or other period-end. The ultimate objective is to arrive at a correct value (correct quantity and correct cost) at a particular time. A "cycle count" is usually performed as a continuing test of the inventory system and is usually more concerned with the accuracy of the quantity than with the inventory value.

7.3 Depending on the accounting system, all inventory counts may need to be entered before new period business is transacted. However, regardless of the system, the sooner that inventory count variances can be reviewed, the better.

7.4 All physical inventories will be periodically counted and reviewed on a frequent basis and under a common set of procedures and controls.