



NORTHERN PENINSULA AREA REGIONAL AREA INVENTORY POLICY AND PROCEDURE

Document Control

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1 PURPOSE

- 1.1 This procedure has been established to provide general direction in regards to planning and conducting a physical stocktake of Council inventories and to recognise generic stocktake procedures for all inventory. It outlines the responsibilities of NPARC staff in relation to the recording of any inventory that is held and should be checked on a regular basis.

2 SCOPE

- 2.1 Physical stocktakes for the following locations:

Location	Frequency
Stores	Annual and regular spot check
Workshops	Annual and regular spot check
Airport	Annual and regular spot check
Jardine Ferry	Annual and regular spot check
Concrete Plant	Annual and regular spot check
Injinoo Service Station	Annual and regular spot check
Umagico Supermarket	Annual and regular spot check
Bamaga Post Office	Annual and regular spot check



- 2.2 The physical count will be conducted in compliance with the procedures set out in this document. Regular independent 'spot-check' of inventory by the Finance Department will be undertaken throughout the year.

3 PROCEDURE

Planning

- 3.1 This step is the most important process in conducting a successful inventory count. Planning involves establishing priorities, assigning responsibilities, setting up a problem resolving mechanism (e.g. a chain of command), determining the inventory method and coordinating all activities. The inventory date and time is also determined and communicated to all involved.
- 3.2 Responsibility for the control of the physical inventory rests with the manager of each area. The Manager will oversee the process to ensure that planning is carried out and that counters are aware of procedures and that these are followed. The Managers will be responsible for co-ordination and completion of the physical inventory. They are encouraged to interact in order to confirm that staff understand what is required. All issues should be directed to the Manager for resolution.
- 3.3 When planning for the stocktake, the Manager should refer to the Stocktake Checklist, which will serve as a comprehensive guide for ensuring that all aspects of the policy are complied with. Planning should include allocation of areas to be counted, to individuals or teams of counters, in order that a systematic approach is taken to ensure a full count.
- 3.4 Before physical inventory commences counters will be issued with written instructions of stocktaking procedures. They should also be given verbal instruction to reinforce the written instructions and ensure that they know what is required including follow up procedures for resolving variances.
- 3.5 Care should be taken to ensure that all stock to be counted is identified prior to the commencement of the physical count. This may include:
- cleaning up the store area to ensure redundant stock and damaged stock returned to the store, is disposed of and taken out of the inventory system
 - ensuring that the receiving dock/area is isolated from the store area and that any goods received prior to the count is identified and excluded from the count, and
 - identify all locations in which stock is located and assign these areas to counting teams.

Instructions

- 3.6 Detailed inventory instructions should be prepared and distributed. These instructions will clearly delineate the roles and responsibilities of all involved in the count. A practice inventory counting session may be helpful to those who have not previously participated in a physical count. Encourage questions from participants. Conduct of the inventory count
- 3.7 The Manager will secure staffing to participate in the stocktake. The Manager will ensure that Financial Accounting staff from Finance and Planning Division or their representative is available to supervise the physical inventory and the follow up of variances.
- 3.8 On the day before the physical inventory all stock will be checked to ensure that goods received are entered into the inventory system prior to the commencement of the count.
- 3.9 On the morning of the physical inventory the receiving dock/area will be quarantined to ensure that any stock received is excluded from the count.



3.10 Staff conducting the physical stocktake will:

- be assigned areas to the count
- if the manual method of stocktake is used, be issued with stock count sheets that do not include stock on hand numbers but identify details of the unit of measurement to be used e.g. sheets, cartons, reams etc. If the scanner method of stocktake is used, issued with scanners
- count stock within the areas assigned. If the manual method of stocktake is used, care should be taken to correctly identify stock, carefully count and record stock ensuring that the quantities recorded is in the correct unit of measurement, e.g. sheets, cartons, reams etc. If the scanner method of stocktake is used, after a predetermined number of entries (to be determined by the capacity of the scanner) have been scanned, the scanner is to be taken to the designated person to be downloaded and recorded. A sheet will be printed of items recorded by scanner to be placed next to the last time scanned (for audit checks).
- staff conducting the stocktake should sign the stocktake sheets
- assist Finance Department staff or their representatives to supervise the count and verify that quantities recorded are correct
- mark stock once it has been counted to ensure it is only counted once
- investigate discrepancies as directed by the Manager and recount stock as requested
- ensure that all items within their assigned area are included in the count, and
- if they believe stock is damaged or obsolete bring this to the attention of the Manager to determine if it is to be included in the count.

3.11 Supervisory Staff will ensure that:

- staff conducting the count are properly instructed in the procedure
- quantities recorded are in the correct units
- variances are investigated
- independent observers and supervisors have adequate opportunity to participate in, supervise and conduct test checks on the physical inventory
- ensure that any proposed adjustments to stock are approved by the Manager and other relevant delegate from the Executive Manager - Finance or representative
- ensure that all steps of the stocktake process, including counts, investigations of variances, valuations and write offs are adequately documented.

Tools and supplies

- 3.12 If the manual method of stocktake is used, print stocktake count sheets; issue measuring instruments, clipboards and other items necessary to conduct the count. This is also the time to determine how the inventory will be listed and extended in the inventory summary i.e. by department using a standard spreadsheet, alphabetic by part name using a customised inventory summarisation program on an in-house computer, numeric by part using data base software, etc.



- 3.13 If the scanner method of stocktake is used, scanner(s) will be made available to conduct the count. Personnel involved in scanning stock should be trained how to use scanner/scanners. Additional barcode labels will be available for difficulties in reading labels.
- 3.14 The manager will ensure that prior to the commencement of the count all necessary preparation for the production of variances reports has been finalised.

Operations

- 3.15 During this time, it would be preferable if arrangements were made for operations to be halted or at least conducted at a minimal level to reduce the movement of inventory. Prepare a log to document all movements of materials during the counting.
- 3.16 The Manager will ensure that the receiving dock/area is quarantined during the period of the stocktake. It is also essential that all deliveries of stock take place the day prior to counting, to ensure that only essential deliveries take place on the day of the count. All such deliveries should be documented and care taken to ensure that they are correctly recorded for the stocktake.

Organisation

- 3.17 Organising materials in storerooms will assist in efficient counting. All stock should be rearranged as necessary so that all like items are grouped together and any excess storage locations noted. This prevents errors and misidentification of stock.
- 3.18 In the days leading up to the stocktake the store should be cleaned, obsolete and damaged stock identified and items of stock which are to be included in the count identified. Care should be taken to exclude stationery that has been issued out for the administration of the store.

Preliminary stock estimates

- 3.19 Estimate inventory levels in each area for comparison with the actual count in order to test the reasonableness of the count. This assists in exposing counting mistakes and avails counters the opportunity to take corrective action.
- 3.20 During the physical inventory count those supervising the count should observe that all stock has been marked as counted and follow up with the count team if stock is not marked.
- 3.21 Once the count is completed all stock numbers will be compared to the perpetual inventory from the stock system.
- 3.22 Variances will then be investigated by the re-counting of stock on the ground, and the verification of the records of receipts and deliveries to ensure that no counting or cut-off errors have occurred.

Obsolete stock

- 3.23 Identify obsolete stock and make arrangements to dispose of or exclude it from the physical count. Goods that are to be excluded should be clearly marked and located away from other inventory.

Administrative office supplies and equipment

- 3.24 Office supplies not used in production or not held for resale such as pencils, paper, boxes of tissues etc. should be expensed when purchased and excluded from the physical count.



- 3.25 Assets and portable attractive items are recorded on a separate master listing and is the subject of a separate physical count in accordance with Assets and Portable and Attractive Items Stocktake Policy and Procedure. Identify potential problem areas
- 3.26 Stock might provide counting problems (an example might be stock stored on shelves above head level, heavy or hazardous material). Resolve these problems by planning ahead how to handle them and ensure that participants are familiar with the inventory to be counted.

Unit pricing

- 3.27 In advance, determine the source of and obtain as much unit cost information on items expected to be in inventory. This will minimize the amount of pricing work needed after the physical count is completed when time demands are usually greater.

Adequate supervision

- 3.28 All counting activities are to be adequately supervised. The supervisor should evaluate the progress of the count. Any adjustments made in the prearranged procedures should be documented.
- 3.29 Furthermore, to ensure the accuracy and validity of the physical count, an independent third party other than the Manager responsible for the inventory e.g. personnel from the Finance Department or their representative will be involved to oversee the count and perform sample checks.

Audit function

- 3.30 Sample comparisons are to be made of the completed stock count sheet with the stock on hand. Errors are to be corrected and evaluated as a basis for possible expanded sampling. If a master inventory listing is available, the count sheet information should be compared to this record. Any discrepancies should be investigated and resolved.

Final tour

- 3.31 A final tour should be made before the release of an area to ensure that all stock has been included in the count.

Release areas

- 3.32 The stocktake supervisor releases storage areas to production/sales after they are satisfied that all stock has been counted, test counts have been completed and variances properly investigated from that particular area.

Update inventory

- 3.33 After all stock has been counted and discrepancies checked, on the Manager's authorisation, the stocktake will be closed and records updated to reflect the levels of the count. At this point a further inventory valuation report should be printed to compare with the pre-stocktake valuation. The difference should match the total variance report.

Evaluate count procedures

- 3.34 Evaluate the count procedures applied and determine how these procedures may be modified to improve the next count. The best time to make adjustments to the following year's inventory instructions is immediately after the current year's count is completed.

Quality control procedures throughout the year



- 3.35 The Manager will undertake sample physical count of inventory throughout the year. The sample will focus on areas of high risk e.g. where there is a high level of shrinkage in the past and high value items.
- 3.36 Performance reports relating to random physical verification will be made to the Executive Manager - Finance.

Change of responsible officer

- 3.37 When the Manager responsible for inventory, changes, a full stocktake of all inventories will be conducted. The new appointee will sign acceptance of the inventory from the outgoing incumbent upon completion of the stocktake and all remedial action as required.

Variance reporting

- 3.38 The Annual Stocktake Report (which is a summary of the variance) is then forwarded to the appropriate Executive Manager for approval to recognise the variance. The Officer with the delegated authority may accept the adjustments or reject the stocktake or part thereof and appoint an independent person to enquire into the deficiency or result.
- 3.39 Once approved the Annual Stocktake Report and stock valuation report with "Stocktake Check List" attached is forwarded to the Finance Department.

Potential risk of non-compliance

- 3.40 Non-compliance of these procedures may result in the following:
- stock shrinkage, breakage or theft could be left undetected
 - stock, and thus cost of sales could be misstated in the financial statements
 - if the stocktake is not properly conducted, count results could be incorrect and consequently adjustments could distort perpetual stock records
 - cut-off errors could result
 - stock could be double counted or excluded from the count
 - stocktake quantities could be manipulated
 - stock already sold/issued for production could be included in the count.

4 RESPONSIBILITIES

Compliance, monitoring and review

- 4.1 The Executive Manager - Finance is responsible for implementation and overall compliance with this policy and procedure and for ensuring its requirements are applied equitably and consistently across the Council.
- 4.2 Management of the relevant areas are responsible and accountable for all stock items in the custody of their respective responsibility area and for ensuring compliance with this policy.
- 4.3 The Executive Manager - Finance will be responsible for final sign-off of the report which must be completed by the 30 June each year. A journal is to be completed in the Accounting System to recognise this amount
- 4.4 When necessary, Internal Audit will observe and monitor the inventory count.



Reporting

- 4.5 No additional reporting is required.

Records management

- 4.6 All communication and documentation pertaining to the annual stocktake (including all variance analysis, manual verifications, extension requests and sign-off forms) will be maintained by the Finance Department in a relevant file for audit review.
- 4.7 Staff must maintain all records relevant to administering this procedure in a recognised Council recordkeeping system.

5 APPROVAL DETAILS

Adopted by Council on the 26 February 2019

Resolution Number: 7.1-260219

Stephen Wilton

Date:

Chief Executive Officer