

POLICY P4.1.11

INVENTORIES

ITEM	DESCRIPTION
Version Number	1.0
SOPs	<ul style="list-style-type: none"> ➤ SOP P4.1.11-1 Management of Inventories in the State Warehouse and Logistics Caches ➤ SOP P4.1.11-2 Management of Inventories in District Stores ➤ SOP P4.1.11 – 3 Stocktake Procedure
Owner	Executive Director, Finance and Executive Services
Contact	Director, Finance and Program Management
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1 Purpose

- 1.1 This policy and associated standard operating procedures (SOPs):
- a. Outline the principles and standards for the recognition of inventory;
 - b. Provide the policy and procedure framework that governs receipt, storage and issue of inventory, along with regular stocktaking; and
 - c. Support compliance with the NSW Government Treasurer’s Directions, Treasury Circulars, Treasury Policy and Guidelines Papers and Australian Accounting Standards in respect of inventory.

2 Definitions

- 2.1 For the purpose of this policy:
- a. **Inventories:** are assets in the form of materials or supplies to be consumed in the rendering of services; or held to be distributed by the NSW RFS to be consumed in the rendering of services (e.g. for use by Brigades in fire fighting activities).

The NSW RFS has defined inventories as specific material items in the SAP catalogue that conform to the definition above, and this list will be reviewed on an ongoing basis.
 - b. **Material Requirements Planning (MRP):** a SAP automation tool through which minimum and maximum levels of inventories are set in order to facilitate effective management and automated reordering of inventories.
 - c. **Minor equipment:** are items of equipment that have a value below the capitalisation threshold (currently \$5,000) for recognition as an asset, which have an extended useful life and are not consumed upon distribution. These items fall outside of the definition of inventories in the accounting standard, and include items such as chainsaws, brush cutters, McLeod tools, axes, hoses and nozzles (along with others).

- d. **Personal protective equipment (PPE):** is equipment provided to members for their protection in carrying out their role and function in a safe manner, and includes items of personal protective clothing along with other items such as helmets, boots and equipment for prevention of asbestos exposure.
- e. **Stock:** is goods held at a storage location for the purpose of storage which are neither inventories nor minor equipment.
- f. **Storage location (SLOC):** an approved warehouse, logistics cache or District store within the NSW RFS or controlled by the NSW RFS. Storage locations are defined in SAP.

For the purpose of this policy, Brigade Stations and stores are not storage locations. When inventories are issued to Brigade Stations or stores they are considered to be consumed and are expensed.

3 Policy

Management of Inventory

- 3.1 All inventories must be recorded and managed through the use of the NSW RFS approved system (currently SAP enterprise resource management system):
 - a. In the case of the State Warehouse through SAP Warehouse Management module; and
 - b. In the case of District Stores, Airbases and Logistics Caches through the use of SAP Inventory Management module.
- 3.2 The NSW RFS will utilise materials requirement planning (MRP) at all storage locations. This will ensure that minimum and maximum inventories levels are identified that are appropriate for the location, and aid in more streamlined ordering.
- 3.3 The relevant District Manager (for Districts) and/or State warehouse manager (for the State warehouse and logistics caches), in consultation with the category manager, must make a recommendation to the relevant Director for approval to create or vary either the minimum or maximum inventories levels.
- 3.4 The Director Operational Mitigation Services and Director Regional Services are required to consult with each other and the Procurement Strategy Steering Committee to ensure that overall organisation inventories levels are neither inadequate nor excessive prior to recommending to the Executive Director Operations the approval of minimum and maximum inventories levels.
- 3.5 The minimum and maximum inventories levels will be reviewed at least annually at each site.

Valuation of Inventory

- 3.6 Inventories have a financial value, which is held as an asset on the NSW RFS Balance Sheet.
- 3.7 Inventories are valued at cost adjusted for any loss of service potential such as obsolescence or expiry.
- 3.8 The cost of inventory includes the cost of purchase and costs of bringing the inventory to its current location (i.e. transport costs).
- 3.9 Where inventory is acquired at no cost, or for nominal consideration, the cost shall be the replacement cost as at the date of acquisition.
- 3.10 Costs such as:
 - a. Wasted materials;
 - b. Storage costs;
 - c. Administration costs or overheads; and
 - d. Distribution costs
 do not form part of the cost of inventory, but are instead expensed as incurred.

3.11 Inventories are held and issued at the weighted average cost for the item, which will be calculated by SAP.

Expensing of inventory

3.12 Inventories are expensed as they are consumed or distributed, whether to an event, incident, mitigation activity, Brigade or individual member.

3.13 The purchase of inventories to be held in store will not result in an expense.

Receiving of inventories into store

3.14 All inventories received into a storage location will be goods receipted into store utilising the SAP goods receipting and goods inwards process.

3.15 Officers receiving goods must undertake sufficient inspection of the goods received to satisfy themselves as to the quantum and quality of goods prior to processing the transaction in SAP.

3.16 Processing of the goods receipt in SAP will be undertaken on the same business day as receipt and inspection of the inventories.

3.17 The miscellaneous goods receipt function must not be used when receiving inventory from suppliers. All items purchased from suppliers must be recognised utilising the SAP purchasing process and have a valid purchase order number.

3.18 Should inventories be received by way of donation, they will be recognised at the current purchase price when received. Such donations should not be encouraged. Contact should be made with the Finance Branch should this occur to recognise appropriate financial transactions.

Issuing and distribution of inventories

3.19 Inventories that are issued from the storage location must be recorded electronically utilising the SAP goods issue process as soon as practicable after issue, and preferably at the time of issue.

3.20 Inventories issued from a storage location will be issued to the relevant cost object in SAP (for example cost centre representing a District or organisation unit, internal order representing an event or project code representing an event or project).

3.21 Inventories issued to a Brigade must be issued to the relevant internal order created in SAP to represent the Brigade. This will result in the quantum and cost of inventory being recorded by Brigade being visible in SAP. Recording of inventories issued to Brigades against the relevant internal orders will automatically result in the costs being visible against in the District cost centre against the relevant budget.

3.22 When issuing personal protective equipment (PPE) from a storage location, the goods issue must be to the individual member, and not to the Brigade. This ensures that the NSW RFS is aware of all PPE issued to a member and assists in monitoring adequacy of PPE for members and managing work, health and safety.

3.23 Storage location managers must ensure stock rotation and management of expiry dates of inventories by issuing on a first in first out basis, and by moving inventories to areas of higher demand for consumption if it is clear they will not be issued prior to expiry.

3.24 Moving inventories between storage locations is not an issue of inventory (refer to goods transfer below).

Cancellation of inventories issue

3.25 Where an issue or distribution of inventories has been processed in error, and the goods remain in the store, a cancellation of the goods issue should be processed in SAP.

3.26 Similarly, where PPE is issued to a member, but is returned due to incorrect sizing, the most appropriate practice is to process a cancellation of the goods issue in SAP, and then re-issue the correct PPE.

Inventories transfer

3.27 The movement of inventories between storage locations must be processed by way of goods transfer within SAP.

3.28 Goods available at another storage location can be perused in SAP, and requested via email from that site. The sending storage location will initiate the goods transfer to the receiving storage location in SAP.

3.29 The movement of inventories between storage locations will not generate an expense (or cost) against the budget of either storage location. Expenses are only incurred when inventories are issued.

- 3.30 The cost of moving inventories between storage locations (freight) is considered a distribution cost and should be expensed.

Inventories return to supplier

- 3.31 Where inventories have been received into a storage location, but are then returned to the supplier (e.g. it is recognised the goods are incorrect or damaged), a goods return should be processed in SAP to remove these items from the store.
- 3.32 If the inventories form part of an invoice, they should be received into store and then returned to the supplier via the goods return process to request an adjustment note against the invoice.
- 3.33 Processing of a goods return is not required if the goods have not been received into the storage location, and are separately invoiced.

Inventories returned to store

- 3.34 Where inventories have been issued (for example to a fire event), but are not fully consumed, the balance that are returned to store should be recognised by processing an inventory return to the storage location in SAP.
- 3.35 This ensures that the inventories count in the store remains correct, and reverses the cost out of the event and returns it to inventory.
- 3.36 Responsibility for this process lies with the manager of the storage location to which the items are returned.

Inventories disposal

- 3.37 Where inventories are required to be disposed of, for example due to expiry or damage whilst held in the storage location, a goods disposal must be processed in SAP.
- 3.38 The goods disposal will result in a reduction of the quantity of inventories held in the storage location, and the write off of the cost of those inventories by way of an expense. Such expenses will be charged to the relevant cost centre, and will be reported in the NSW RFS financial statements.
- 3.39 A reason for the goods disposal must be provided within SAP.
- 3.40 For Districts, the District Manager is required to approve a goods disposal in SAP. For the State warehouse or logistics cache, the State warehouse manager is required to approve the goods disposal in SAP.

Stocktakes

- 3.41 Stocktakes at the State Warehouse will be undertaken at least quarterly.
- 3.42 Stocktakes at District stores and logistics caches will be undertaken at least once every six months, with one to be conducted prior to each fire season and one post each fire season (prior to the end of financial year).
- 3.43 A stocktake involves a physical count of all inventories to determine the quantity actually held in the storage location compared to the number identified by the system. Any difference will be adjusted by way of a stock adjustment in SAP that finalises the stocktake process. A reason for the stock adjustment will be required in SAP.
- 3.44 For Districts, the District Manager is required to approve a stock adjustment. For the State warehouse or logistics cache, the State warehouse manager is required to approve the stock adjustment.
- 3.45 The financial impact of stock adjustments occurring during stocktakes will be posted to the relevant cost centre, and reported in the NSW RFS financial statements.

Stock Items Held in Store

- 3.46 Many storage locations will hold inventories items (as defined in this policy), minor equipment and stock items (items which are held without a value). The processes described in this policy will be effective for the management of inventories, minor equipment and stock items, however transactions involving stock items will not generate financial impacts post the initial purchase of the item.
- 3.47 Managers of storage locations must adopt the same practices for management of stock items as for inventories items to ensure effective control and visibility of stock.

Transitional Provisions

3.48 The requirement to introduce materials requirements planning (MRP) at District stores is to be rolled out over a two year transition period (starting from the date of initial publication of this policy) during which statistics on inventories issues are collated and minimum and maximum inventory levels evaluated.

Review of this policy

3.49 This policy will be reviewed 12 months after the publication date.

4 Related documents

- [Treasurer's Directions](#) under the [Public Finance and Audit Act 1983](#)
- [Accounting Standards AASB 102 Inventories](#)
- [NSW Treasury Policy and Guidelines Paper TPP 18-01 Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities](#)
- Inventory Management Training Guide (Valuated Inventory) (*under development*)

5 Amendments

AMENDMENT DATE	VERSION NO	DESCRIPTION
25 July 2018	1.0	<ul style="list-style-type: none">➤ Initial release as P4.1.11 Inventories v1.0➤ This policy repeals and remakes P2.1.5 State Warehouse Inventory Management – Operations v1.2➤ Comprehensive rewrite to align with current legislation and processes

SOP P4.1.11-1

MANAGEMENT OF INVENTORIES IN THE STATE WAREHOUSE AND LOGISTICS CACHES

1 Purpose

- 1.1 This procedure defines the responsibilities for management of inventories in the State warehouse and logistics caches. In particular, it ensures:
 - a. Effective management of inventories critical to fire fighting operations;
 - b. Strategies for maintaining minimum inventory levels, whilst maintaining appropriate capacity to respond to rapidly escalating events; and
 - c. Clarity of the process for determining minimum and maximum inventories levels.

2 Procedures

Warehouses and Logistics Caches

- 2.1 The State warehouse is a central warehouse managed by Operational & Mitigation Services utilising the SAP warehouse management module.
- 2.2 Logistics caches are strategically located decentralised stores dispersed across NSW to hold specified levels of inventories that can be rapidly deployed to events, Districts or other locations in order to minimise lead times for delivery of inventories. Logistics caches are managed by Operational & Mitigation Services using either the SAP warehouse management module or SAP inventory management module as appropriate.
- 2.3 The location of logistics caches will be recommended by the Director Operational & Mitigation Services for approval by the Executive Director Operations.

Material Requirements Planning

- 2.4 SAP material requirements planning will be implemented at the State warehouse and logistics caches.
- 2.5 The minimum and maximum levels for inventories at each site will be developed based on historical and forecast demand, replenishment timeframes with contracted suppliers and agreed with the relevant category manager.
- 2.6 A recommendation will be made to the Director Operational & Mitigation Services for consideration and progression through the process described in the Policy.
- 2.7 Ordering of inventories will be automatically recommended in SAP through the Material Requirements Planning process when inventories levels reach the minimum stock level, and proceed according to standard SAP purchasing processes.
- 2.8 Operational & Mitigation Services are responsible for ensuring appropriate stock rotation and issue practices at the State warehouse and logistics caches to ensure that expiry dates of inventories are appropriately managed and wastage is minimised.

Supply of inventories during major events

- 2.9 Supply of inventories for section 44 fire fighting operations and other major events is requested by Incident Management Teams through State Operations.
- 2.10 Approval of requests follows the agreed process specified in Operational Management Procedure 4.18.02 *State Logistics Requisitions and Orders* and Incident Management Procedure 6.01.08.01 *IMT Logistics Request Process*.
- 2.11 State Logistics will determine the most appropriate supply option for inventories for major events.
- 2.12 All section 44 or major event approved logistics orders managed by Operational & Mitigation Services from either the State warehouse or logistics caches will be processed in SAP.

- 2.13 Where inventories are to be dispatched from the State warehouse or logistics caches, Operational & Mitigation Services will engage and manage the most appropriate form of transport.

Exceptional Circumstances

- 2.14 On occasion, very high levels of activity will warrant the increase of inventories holdings. The Director, Operational & Mitigation Services is authorised to approve an increase in inventories levels in such circumstances, however notification must be provided in writing to both the Executive Director Operations and Executive Director Finance and Executive Services of such approval being granted.
- 2.15 Items of inventories with especially long delivery times may be approved for reorder by the Director, Operational & Mitigation Services prior to inventories levels reaching the minimum level, however this should be routinely accounted for in setting the minimum inventories level.

3 Related guidelines

- > [Operational Management Procedure 4.18.02 State Requisitions and Orders](#)
- > [Incident Management Procedure 6.01.08 Logistics Request](#)
- > [Incident Management Procedure 6.01.08.01 IMT Logistics Request Process](#)

4 Related forms

- > Nil

SOP P4.1.11-2

MANAGEMENT OF INVENTORIES IN DISTRICT STORES

1 Purpose

- 1.1 This procedure defines the responsibilities for management of inventories in District stores. In particular, it ensures:
 - a. Effective management of inventories critical to fire fighting operations;
 - b. Strategies for maintaining minimum inventory levels, whilst maintaining appropriate capacity to respond to rapidly escalating events; and
 - c. Clarity of the process for determining minimum and maximum inventories levels.

2 Procedures

District Stores

- 2.1 District stores are local warehouses managed by NSW RFS Districts.
- 2.2 District stores are decentralised stores that hold specified levels of inventories that meet day to day local needs, as well as being able to be rapidly deployed to events in the District or other close locations in order to minimise lead times for delivery of inventories. District stores are not intended to hold inventories at levels for sustained response to major events, but rather to ensure effective initial local response for a period until additional resources can be deployed from the State warehouse or logistics caches.
- 2.3 District store locations will be recommended by the appropriate Regional Manager for approval by the Director Regional Services.
- 2.4 District Managers are responsible for ensuring that all movements in and out of District stores are appropriate recorded within SAP.

Material Requirements Planning

- 2.5 SAP material requirements planning will be implemented at District Stores, subject to any transitional provisions in the Policy.
- 2.6 The minimum and maximum levels for inventories at each site will be developed based on historical and forecast demand, replenishment timeframes with contracted suppliers and/or the State warehouse or logistics caches and agreed with the relevant category manager.
- 2.7 A recommendation will be made to the Director Regional Services for consideration and progression through the process described in the Policy.
- 2.8 Ordering of inventories will be automatically recommended in SAP through the Material Requirements Planning process when inventories levels reach the minimum stock level, and proceed according to standard SAP purchasing processes.
- 2.9 District Managers are responsible for ensuring appropriate stock rotation and issue practices at District stores to ensure that expiry dates of inventories are appropriately managed and wastage is minimised. This may include rotating stocks to neighbouring Districts or the State warehouse for consumption.

3 Related guidelines

- [Operational Management Procedure 4.18.02 State Requisitions and Orders](#)
- [Incident Management Procedure 6.01.08 Logistics Request](#)
- [Incident Management Procedure 6.01.08.01 IMT Logistics Request Process](#)

SOP P4.1.11-3

STOCKTAKE PROCEDURES

1 Purpose

- 1.1 This procedure defines the procedures to be followed to ensure the physical count of inventory will be conducted in compliance with this policy, and to ensure the stocktake count procedure across all District Warehouses is safe, consistent and compliant with best practice.

2 Procedures

Planning

- 2.1 Good planning is critical to ensure a successful inventory and stock count. After considering all factors, the Manager must have a meeting with all relevant staff, prior to stocktake to communicate the plan and expectations.
- 2.2 When planning for the stocktake, the Manager must use the stocktake checklist (see Attachment 2).
- 2.3 A clean and well-organised stockroom will make it easy to find and count the inventory and stock, and reduce the possibility of injury and counting errors. Any risk areas such as hazardous materials, heavy items and items above head height must be identified and a risk assessment carried out.
- 2.4 The shelving and racks should be labelled in well-defined sections. In addition, package labels must be used which clearly identify what is inside each package on the shelves.
- 2.5 Areas to be counted should be planned to ensure the count process is efficient and systematic – e.g. left to right, top to bottom where practical. Maps may be drawn up if necessary.
- 2.6 Before the stocktaking process begins, ensure relevant personnel have the tools needed to get the job done. These may include (but are not limited to):
 - a. clipboards;
 - b. at least two different coloured pens;
 - c. notepads; and
 - d. coloured stickers to mark counted items (each stocktake year changes colour).
- 2.7 The Manager will nominate the appropriate person to create the stock count sheets. These should be created in accordance with the Inventory Management Training Guide (Valuated Inventory) (the Guide) (*under development*).

Instructions

- 2.8 Prior to beginning stocktake, detailed instructions should be prepared and distributed (see Attachment 1).
- 2.9 These should include the procedures outlined in this document, roles and responsibilities of all those involved in the stocktake as well as any site-specific information that is deemed relevant.
- 2.10 Any identified hazards and risk assessments should be included.

Organise and Clean

- 2.11 Organising materials in storerooms will assist in efficient counting. Group all like items together and minimise duplicate stock locations.
- 2.12 Items already issued should be removed from the store location to avoid counting errors.

Inventory Count

- 2.13 The Manager will appoint the appropriate staff member to lead the stocktake. For ease of identification, this staff member should be the person who is most familiar with the SLOC and its inventory / stock.
- 2.14 The stocktake lead person must accompany another nominated person throughout the entire stocktake. The second person must be independent of the SLOC in stocktake.
- 2.15 On the day before the stocktake, the warehouse must be thoroughly checked to ensure that goods received are entered into approved corporate system (currently SAP) and placed in the correct location.
- 2.16 On the morning of the stocktake, the receiving dock / area will be quarantined to ensure any stock received during stocktake will be excluded from the count.
- 2.17 Before the stocktake count commences, the counting team will be issued with written instructions of stocktake procedures. The Manager must ensure the counting team understand what is required, are aware of any risks or hazards and are suitably briefed on the stocktake plan.
- 2.18 Once stocktake count commences, no transactions can be conducted in the corporate system (currently SAP) until the stocktake has ended and the Manager has given approval to do so.

Responsibilities

- 2.19 The counting team conducting the physical stocktake must:
 - a. always count in teams of two, split into a Primary and Secondary counter. The Primary counter will undertake the physical stock counting. The Secondary will visually confirm the count and record the amount on the count sheet. All counts will be verbally confirmed between both parties.
Note: Either the lead stocktake person, or the other nominated person (clauses 2.13 and 2.14), could be the Primary counter, depending on the individuals concerned.
 - b. count in the layout of each store determined by the Manager. Each Aisle, Rack, Bin, Pallet, Box etc. must be marked with the coloured stickers to indicate a complete successful count.
 - c. count any damaged or unfit items but note on a disposals request form for later review by the Manager (see Attachment 3).
 - d. record the count on the paper stock-count sheets provided by the Manager. Where there are multiple teams counting in the same store, each team will use different coloured pens as an identifiable audit trail.
 - e. sign off and date each count sheet. The count sheets must be scanned in and saved to a location that can be readily accessed by the team at the SLOC. The completed hard copies will be passed to the nominated person entering the count in the corporate system (currently SAP).
- 2.20 The Manager must ensure that:
 - a. all people involved in the stocktake are properly instructed on the procedure and plan;
 - b. quantities recorded are in the correct unit of measure;
 - c. all variances are properly investigated;
 - d. any proposed adjustments to stock such as variances and disposal requests are approved;
 - e. all steps of the stocktake process, including counts, investigation of variances and disposals are adequately documented;
 - f. counted stocks are marked with a correct sticker, and followed up with the count team if stock is not marked;
 - g. the count sheets are entered into the approved corporate system (currently SAP). After each count sheet has been entered and saved, review any variances in accordance with the Guide. All variances must be investigated and recounted;
 - h. all variances are recounted and verified, and following that, the data is correct in the approved corporate system (currently SAP). Once the manager is confident it is correct the differences can be posted in accordance with the Guide; and
 - i. all the variance reason codes are entered as necessary in accordance with the Guide.

Operations

- 2.21 During stocktake it would be preferable that operations cease; or at least be minimised in the storage area.
- 2.22 However, any **necessary** operations in case of an event must not be impeded. If such an event occurs, a manual log must be prepared to document any goods movements during this time. This Goods Movement form (see Attachment 4) must be compared to the variance report.

Quarantine

- 2.23 The Manager must ensure the receiving dock / area is quarantined during the entire period of the stocktake.
- 2.24 It is preferable that only absolutely essential deliveries are received during stocktake. Any deliveries during stocktake must not be receipted into the corporate approved system (currently SAP) and will not be counted. Goods may only be receipted after stocktake is complete and closed in SAP.

Adequate Supervision

- 2.25 All counting activities should be appropriately supervised.
- 2.26 The supervisor should evaluate the progress of the count.
- 2.27 Any changes to procedure should be documented for later review.
- 2.28 Due to WHS reasons there should always be two people in the warehouse.

Evaluate Procedures

- 2.29 The count team and the manager may evaluate the count procedures applied to determine if the procedures can be modified or improved for the next count.
- 2.30 The best time to promote changes to next stocktake is immediately after the current stocktake.

Audit Function

- 2.31 Random cyclical stock counts will be carried out at various locations by an independent party to ensure correctness and compliance.

Quality Control throughout the year

- 2.32 It is recommended the Warehouse Stock report is run after any event or uncontrolled store activity to compare variances to pre-event counts.
- 2.33 The Manager must conduct random cyclical counts at their SLOC to evaluate inventory / stock levels. This will avoid any larger potential losses at the end of the financial year.

Change of responsible officer

- 2.34 When the person responsible for inventory changes, a full stocktake of inventories at that location must be conducted.
- 2.35 The new appointee must sign acceptance of the inventory from the outgoing incumbent.

Risk of non-compliance

- 2.36 Non-compliance of these procedures may result in:
 - a. Stock shrinkage, breakage or undetected theft;
 - b. Inventory values misrepresented;
 - c. Incorrect count results;
 - d. Running out of critical items; and/or
 - e. Stock that is already issued being counted.

Compliance, monitoring and review

2.37 The Manager is responsible for the implementation and compliance with this policy and procedure and ensure its requirements are applied within their SLOC.

2.38 The Manager of the SLOC is responsible and accountable for all inventory / stock items in their custody.

Reporting

2.39 Reports can be extracted from the corporate approved system (currently SAP) as required.

Records management

2.40 All communication and documentation relating to stocktakes (including variances, analysis, verifications, and written changes to procedure) must be maintained by the NSW RFS in a relevant file for audit review.

Stocktake Procedure Instructions

2.41 Refer to Figure 1 on the following page for details on stocktake instructions.

3 Related forms

- > [Stocktake written instructions](#)
- > [Pre-stocktake planning checklist](#)
- > [Asset disposal form](#)
- > [Stocktake goods movement](#)

Figure 1

