



Stores Management

Corruption Prevention Department

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STORES MANAGEMENT

Introduction

Procurement of goods costs a company or an organization huge expenditure every year. A sound procurement system helps to prevent abuse or corruption which will cause the company or organization serious losses both in terms of profits and reputation. Stock control is equally important because manipulation of the purchased goods also brings about similar detrimental effects. An effective store management system is therefore essential to deter malpractice such as falsification of stock records, unauthorized disposal of stores, stocktaking manipulation etc.

This Best Practice Module aims to highlight the corruption risks and provide companies and organizations with a checklist of good practices in stores management.

Stock Control Policy

To ensure the company or organization has an adequate supply of goods and to deter stockpiling of surplus or useless items resulting from uncontrolled purchases, it should make known its stock control policy to the staff responsible for stores management, specifying the following rules :

- The types of items for stocking - items should be classified into relevant categories such as inventory and non-inventory items.
- The desirable stock levels - the stock levels for different items should take into account the lead time for re-order and the consumption rate. They should include:
 - safety level
 - re-order level

maximum level

- the requirement to keep accurate and up-to-date inventory records, by way of a manual or computer system.

Procedural Guidelines

To ensure compliance with the stock control policy and consistency in practices, there should be written guidelines on:

- the stores control procedures including procedures for disposal of surplus or obsolete stores;
- the authorization levels for various store control functions e.g. the authority for order of replenishment and condemnation of goods; and
- the frequency of spot checks, stock-taking exercises and audit checks.

Stock Records

The keeping of accurate and up-to-date records of stock is important in stores management. The records should include the following details:

- the store code and description of each category of goods;
- the quantity and location of items within the store;
- the date, quantity, voucher reference, and the names of handling staff of each transaction;
- the stock balance at any time; and,
- the expiry of validity date (if any) of each batch of stock.

Store Transactions

In handling store transactions, the following measures are recommended to ensure the proper handling and recording of store transactions:

- Each store transaction (including receipt, issue, return or transfer of goods) should be entered promptly in the store records and supported by an approved voucher.
 - A wrong entry in the record should not be erased but should be duly marked with the correct one entered by its side. The supervisor should initial against all additions, deletions and corrections of store records.
 - Completed vouchers should be filed in sequential order to facilitate checking.
 - Computerized stores systems should have standard access control for data input and amendment as well as audit trail functions.
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Segregation of Duties

Segregation of duties helps to enhance checks and balances in the system. As far as feasible, different staff members should therefore be assigned to handle different duties such as receipt and issue of goods, supervision of stores, and stock-taking.

Store Keeping Duties

As the storekeeper is accountable for the stock under his control, his duties should be clearly defined in the guidelines. He should be required to:

- check, count and label the goods received;
- check and verify approval authorities before issue of store items;
- maintain stock balance and location records;

- conduct periodical stock-taking and report any discrepancy or damaged/obsolete goods; and
 - ensure the security of stock in store.
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Job Rotation

Job rotation could help to reduce the risk of corrupt collusion among unscrupulous staff in the manipulation of stock. A company policy on staff rotation should be formulated and made known to the staff. Staff members assigned storekeeping duties such as receiving of goods should be rotated from time to time as far as practicable.

Upon the transfer of staff, there should be a proper hand-over procedure requiring both staff members concerned to verify the stock as shown in the ledgers against the actual stock in store.

If it is not feasible to check each and every store item, the incoming staff member could randomly select the stock of various categories of goods, particularly high value ones, for verification. On completion of the verification check, both staff members should sign the records to confirm the hand-over.

Receipt of Stores

In receiving goods for the store, measures should be taken to ensure the staff responsible accept only goods of the specified quantity and condition at the time of order. These include:

- Where practicable, goods should be received by at least two officers who should inspect the quantity and quality of the goods before acknowledgement of receipt.

- Sequentially numbered goods receipt vouchers should be prepared to record all goods received, with copies, attached to the delivery notes, sent to the accounting department for record.
- Procedures should be laid down to govern the reporting and handling of damaged goods, and short-delivery or over-delivery of goods.
- Procedures should also be drawn up for the reporting and lodging of claims in case of damaged goods or short-delivery. The management should ensure that no claims are considered settled until:
 - ❑ the value of the goods has been recovered in full;
 - ❑ the goods have been replaced; or
 - ❑ authority to write-off the goods or other adjustments has been given.

Issue of Stores

In controlling the issue of stores, the following measures should be taken:

- All goods issued should be supported by properly approved delivery vouchers. The recipients of goods should be required to acknowledge receipt on the delivery vouchers, which are later sent to the accounting department for record.
- Stock items should be issued on a “first in - first out” basis, particularly for those items which have a limited shelf life.

- The storekeeper should maintain an up-to-date record of specimen signatures of the authorized persons for store requisitions. This should be used for checking the signatures on the authorized vouchers as necessary.

Stock Checks

Supervisory officers not directly involved in stores management (such as officers of the accounting department) should carry out surprise physical stock checks at specified intervals. The stock-taking results should be reconciled with the stock records kept in the store and the accounting department.

Since it is not uncommon to have discrepancies in stock-taking, there should be a policy and procedures to deal with stock record variations.

Any discrepancy should be investigated and documented. The management's approval should be sought for any amendments to the stock records. The authority for writing off any stock should be clearly defined.

Disposal of Stores

The disposal of stock items should follow well defined procedures including a process of inspection, certification and agreement on the method of disposal. Guidelines should be issued to stipulate the approving authorities and the methods of disposal (e.g. for re-sale or disposal as waste).

The circumstances under which stock items could be discarded should also be laid down:

- they are unserviceable or beyond economical repair;
- their validity has expired;
- they are damaged or broken; or
- they are deemed surplus to requirements.

Disposal of items by dumping should be handled by at least two persons, with a more senior staff member of an appropriate rank acting as a witness. A record of disposal should be kept and certified by the staff responsible. If the stock has a saleable value, consideration could be given to selling the goods by auction or tender.

Physical Security

To prevent unauthorized access to the store or theft, the physical security of the store should be reviewed regularly to assess if any improvement is necessary.

Internal Audit

There should be a schedule of internal audits on stores to be approved by the management. This is a means to ensure that the laid down store policies and procedures are followed, and to help deter corruption and malpractice.

Advisory Services Group

In addition to the series of Best Practice Modules, the ICAC maintains an **Advisory Services Group** to provide free and confidential corruption prevention advice to private organizations covering various aspects of their activities such as staff administration, stores management and administration of contracts. For further information, please contact the Advisory Services Group at telephone no. 2526 6363 or fax no. 2522 0505 or email address asg@cpd.icac.org.hk.



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Independent Commission Against Corruption
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