

Stores Management in Non-Governmental Organisations



**Corruption Prevention Department
Independent Commission Against Corruption**

CONTENTS

	<i>Pages</i>
Introduction	1
Policy and Guidelines	1
General Parameters in Stock Control	2
Segregation of Duties	3
Stores Records	3
<i>Fixed Assets</i>	4
<i>Stores, Materials and Goods for Sale</i>	5
<i>Computer Records</i>	5
Receipt of Stores	6
Issue of Stores	7
<i>Handover of Stores arising from Staff Transfers</i>	7
Independent Stock Checks	8
Disposal of Stores	8
<i>Authority for Disposal</i>	9
<i>Methods of Disposal</i>	9
Promulgation of Guidelines	9
Enquiries	9



STORES MANAGEMENT IN NON-GOVERNMENTAL ORGANISATIONS

Introduction

Non-Governmental Organisations (NGOs) receiving government and other public subventions provide a wide range of services to the community such as sheltered workshops and homes for the elderly. In their daily work, NGOs have to purchase various stores items including fixed assets (e.g. furniture, office equipment, electrical appliances and computers) and consumables (e.g. medical supplies, office stationery and daily necessities such as food and toiletries). Some NGOs also operate workshops for the production and sale of goods (e.g. books or souvenir items). For this purpose, they need to procure raw materials and keep stock of the finished products pending sale.

Given the use of public funds, NGOs should ensure that there are proper stock control systems and adequate measures to prevent abuse or malpractice such as falsification of stores records, unauthorised disposal of serviceable stores for personal gain, misappropriation of the assets and theft, etc.

This Best Practice Module aims to provide NGOs with a checklist of good practices in stores management. On general procurement matters, please refer to a separate ICAC Corruption Prevention Best Practice Module on “Subvented Social Welfare Non-Governmental Organisations – Procurement Procedures”.

Policy and Guidelines

To ensure consistency and accountability in stock control, NGOs should lay down clear policies and procedural guidelines. These include:

- A policy that forbids any misuse or misappropriation of the NGO's assets and resources.

- Procedural guidelines on stores management and well-defined levels of staff for authorisation of different functions such as approving:
 - ◆ replenishment of depleted items;
 - ◆ acceptance of goods upon delivery;
 - ◆ disposal of unserviceable or surplus items;
 - ◆ ethical guidelines such as Code of Conduct for staff; and
 - ◆ other matters such as declaration of conflict of interest and acceptance of advantages.

General Parameters in Stock Control

To facilitate stock control, it is good practice for NGOs to lay down parameters, such as the following:

- The types of items to be subject to stock control, e.g. fixed assets, consumables, and goods for sale.
- The desirable stock holding levels for individual stores/materials including:
 - (a) Re-order level – the level at which a new order is normally placed to replenish stock to allow ample time for normal procurement procedures to be followed.
 - (b) Maximum level – the maximum stock level for individual items to prevent the procurement of an unnecessarily excessive amount of goods.
- In the case of goods produced by workshops for sale, the stock level should take into consideration the rate of production/turnover.

- The mode of stock control i.e. a manual or computerised system. Where resources allow, a computer-based stock control system is preferred because it provides on-line access to stores information and facilitates maintenance of data such as stores movements.
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Segregation of Duties

The duties of staff involved in the stock control process should be appropriately segregated to provide adequate checks and balances. Where practicable, different officers should be assigned to handle various stores-related functions including:

- Raising purchase requisition.
- Receipt, inspection and counting of stores items delivered by suppliers, the duties of which should better be discharged by at least two staff.
- Storage of received stores and processing transactions (e.g. issue of stores to users).
- Stocktaking exercises or audit checks.

In NGOs with service units outside the head office, separate sets of stores records for the head office should be maintained. Copies of these records should be updated and reconciled regularly or after each stocktaking exercise to see if there are any discrepancies.

Stores Records

Accurate and up-to-date stores records are keys to effective stores management. The following are some basic procedures on record maintenance:

- Stores should be counted and recorded promptly after receipt or production (as for goods for sale) and whenever there is a store transaction (e.g. upon issue, return and transfer of a store item).

- For the issue of stores, each entry of store record should :
 - (a) be supported by a properly authorised voucher or a job order (for the issue of raw materials), and
 - (b) show the necessary details such as the code number identifying the store item, quantity of the transaction and the voucher reference.
- Vouchers should be serially numbered to facilitate checking.
- In the case of a manual record system, a wrong entry should not simply be erased but it should be crossed out with the correct one entered by its side. Alternatively, a new entry should be made, cross-referencing the wrong entry. All corrections to a record, be it a re-written or a new entry, should be signed off by the authorising officer and subject to supervisory or audit checks, as for any additions or deletions of the stores records.
- In the case of a computerised system, corrections to stores records should only be made by the authorised officers. Audit trail reports on updated or amended stores records should be produced for supervisory checks.

Fixed Assets

Each fixed asset item should be affixed with a serial number and recorded in a register showing the following information:

- the serial number
- a description of the item
- the date and file reference of acquisition
- the cost of the item and the source of funding (e.g. Lotteries Fund) as appropriate

- the status (i.e. whether the item is held in stock or have been issued for immediate use) and the location (i.e. the assigned user)
 - subsequent movements of the item
 - date, reason and authorisation for disposal of any item classified as surplus or unserviceable
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Stores, Materials and Goods for Sale

For stores, raw materials and goods for sale, the stores records should cover:

- the description and code number of each category of stores, materials or goods
 - the quantity and location of the item
 - the date and quantity of each transaction (including receipt, issue, return or transfer of stores, materials and goods)
 - the unit price of goods for sale
 - the stock balance after each transaction
 - the expiry or validity date of the item (if any)
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Computer Records

NGOs using computerised stock control systems should put in place safeguards against unauthorised access or tampering of the computer data. The following are the general areas of concern in using computer-based information systems:

- Physical security – to prevent unauthorised access to computer terminals and equipment.
- System security – to protect the accuracy, integrity and completeness of information and the computer software from being tampered with.

- Data security – to protect the confidentiality and integrity of data against unauthorised access or alteration by restricting access and functions to designated officers (e.g. by password control).

More corruption prevention advice on system security is provided in a separate ICAC Corruption Prevention Best Practice Module on “Information Systems Security”.

Receipt of Stores	<p>In receiving stores items (including stores, materials, fixed assets or goods for sale) delivered by suppliers or workshops, the following control measures are recommended:</p> <ul style="list-style-type: none">• Where possible, stores items should be received and inspected by two officers against the order specifications (including the timing of delivery and quantity etc.) or the description of finished products.• Payment should only be made upon certification that the delivered items or goods have met the order specifications.• Serially numbered vouchers should be prepared for issue to the supplier or workshop as receipt of all items received, with a copy to the accounting department for record.• Any damaged or sub-standard items and occasions of short- or over-delivery should be properly documented with a record to the accounting department. If the user is responsible for the receipt of goods, the supplies office should also be notified.• The approving authority for writing-off any stores should be clearly defined and the quantity of stores involved and reasons should be recorded.
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Issue of Stores

For the issue of stores, raw materials or goods for sale to users, the following measures are recommended:

- Stores should only be issued upon production of serially numbered vouchers or job orders approved and signed by authorised staff.
 - The stores staff should maintain a list of specimen signatures of the authorised officers and the signatures on the vouchers or job orders should be checked against the list.
 - Recipients of stores should acknowledge receipt on the voucher, a copy of which should be sent to the accounting department for record.
 - Stores should be issued on a “first-in-first-out” basis, particularly for those items which have a specified shelf life.
 - Stock balance records should be updated promptly upon each issue with details such as the date, reason of issue, voucher/job order reference and the recipient.
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Handover of Stores arising from Staff Transfers

Stores staff are accountable for the safekeeping of the stock in hand. Hence, they should be required to conduct stocktaking exercises at specified intervals. If there is a change of staff, both the incoming and outgoing stores officers are recommended to take the following steps:

- All items held in stock should be checked to ensure they tally with the records.
- If it is not practicable to check all items during the handover, the incoming officer should select randomly a number of items for checking, particularly those of high value.
- Any surpluses or shortfalls of items identified should be documented and reported to senior officers.

- The outgoing and incoming officers should sign a handover report for record purposes.
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Independent Stock Checks

Stocktaking should be conducted on a regular basis by officers not in direct control of the stock (e.g. the staff of the administration/accounting departments). Supervisors should also undertake surprise stock checks from time to time. The following measures are recommended during the checks:

- Results of stock checks should be reconciled with the records held in the storeroom and by the accounting department and recorded.
 - Any discrepancy should be documented, investigated and reported to the management including the findings of the investigation.
 - The approving authority for amending stores records, especially involving writing off any loss or shortfall of stores items, should be clearly defined.
 - The check should cover the compliance with the security measures.
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Disposal of Stores

Stores items may be disposed of under the following circumstances:

- Unserviceable or beyond economical repair
 - the validity has already expired
 - damaged or broken
 - surplus items
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Authority for Disposal

NGOs should specify the authorities to approve disposal of stores items and the method of disposal. Where necessary, procedures should be drawn up for the handling of scrap materials arising from the production of goods for sale to prevent materials with resale value from being disposed of for personal gain without proper authorisation.

Methods of Disposal

- Common methods of disposal of unwanted stores include reallocating surplus items to other service units of the NGOs, trading-in for new/replacement items, donation to charitable organisations, auction or tender, or dumping.
 - Disposal of stores should best be carried out by a team comprising at least two officers, properly documented and supervised by an officer preferably not directly involved in stock control.
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Promulgation of Guidelines

It is important that the policy and procedures are promulgated in guidelines which should be updated regularly to ensure consistency in practices and circulated to all staff concerned. Any deviations from the guidelines should be justified and endorsed by the management.

NGOs should issue guidelines on stock control in the form of a manual or circulars which should also include the rules in respect of declaration of conflict of interest and acceptance of advantages.

Enquiries

NGOs interested to obtain further advice on corruption prevention in stock control practices and procedures may call the Advisory Services Group of ICAC at the hotline telephone no. 2526 6363 for tailor-made advice under conditions of the strictest confidence. We pledge to respond to your request within two working days.

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