Best Practice Checklist

Stores Management

防止貪污處
Corruption Prevention Department

INTRODUCTION

Tangible assets of an organization or a company can be broadly divided into two categories: ***inventory*** items and ***fixed asset*** items. For the purpose of this Best Practice Checklist, inventory items include saleable goods or raw materials used for production by the organization or company. Fixed asset items include those made available for use by the staff when conducting the business of the organization or company, such as computers, office equipment, and company cars, etc.

Past corruption cases showed that stores management is an area prone to corruption. Staff having access or control over stores may be tempted to misappropriate or misuse them for personal gain. There were also cases of collusion between the suppliers and the stores staff, who condone acceptance of inferior goods or short delivery, resulting in financial loss to the employer.

This Best Practice Checklist aims at providing organizations with a user-friendly and step-by-step guide on stores management with recommendations of safeguards to minimize risks of corruption or malpractice. Organizations are expected to adapt the recommended safeguards to suit their organizational structure, resources, risk exposures, and any statutory requirements.

The Advisory Services Group of the Corruption Prevention Department of the Independent Commission Against Corruption provides free, confidential, and tailor-made corruption prevention service to private companies on request. The Group also stands ready to tender further advice to on how to apply the recommended practices in this Best Practice Checklist to suit individual needs. For more information, please contact the Group at :

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CHAPTER 1

INVENTORY ITEMS – KEY PROCESSES

Key Processes

Listed below are the key processes in the management of inventory items. The recommended control measures for each process are provided in Chapter 2 (the relevant paragraphs are quoted below).

Setting up an Inventory Management System and Security of Stores Facilities *(2.1 & 2.2)*

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Receipt of Inventory Items *(2.3)*

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Issue of Inventory Items *(2.4)*

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Disposal of Inventory items *(2.5)*

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Inventory Check *(2.6)*

CHAPTER 2

INVENTORY ITEMS – CHECKLIST OF RECOMMENDED PRACTICES

2.1 Setting up an Inventory Management System

Responsible Parties	Recommended Control Measures
Management	☐ Lay down in guidelines the policies and procedures for inventory management, including: • receipt, secure storage, replenishment, and disposal of inventory items; • conduct of inventory checks, handling of discrepancies, amendment of inventory records, and handing over of stores, etc. ☐ Clearly specify: • the authorities for inventory management activities (e.g. issue of stock, disposal of inventory items, writing off and amendment of inventory records); and • the roles and duties of the staff responsible for various inventory management activities (e.g. storekeeper, store supervisor, procurement and accounting staff).
Store Managerial Staff	☐ Put in place a computerised inventory management system, if resources allow, to maintain accurate inventory records and to facilitate control and supervision, such as: • search keys for identifying an item or a batch of items, including the item code and batch number, and data such as description of the item and its location in the store; • stock movement transactions, including dates, quantities of incoming or outgoing items, voucher references, the names of issuing or receiving staff, etc.; and • stock information such as the expiry or validity date, and stock balance of items in store. ☐ Install a bar-coding system or radio frequency identifier technology to further enhance control of inventory items, if resources permit.

Store Supervisor

☐ Segregate the following duties as far as practicable:

- purchasing duties from inventory control duties;
- storekeeping duties (duties involving physical access to inventory) from inventory record-keeping duties;
- storekeeping duties from inventory disposal approving duties.

Accounting Staff

☐ Maintain independent accounting records on inventory.

2.2 Security of Stores Facilities

Responsible Parties	Recommended Control Measures
Store Managerial Staff / Store Supervisor	☐ Ensure there is adequate physical security to safeguard items in stock, having regard to their value. For example: • keep inventory in an adequately secure store room equipped with electronic access control or a lock with the key kept by only the storekeeper (the duplicate key should be kept in the accounts or administrative section in a sealed envelope signed by two persons to prevent unauthorized use); • if an electronic system is used, ensure access is controlled by personalized security passes so that the identity of the staff accessing the store is logged for future checking if necessary; • if necessary, install a CCTV system with recording function to monitor movements at the store entrance and inside the store; and • if cupboards or cabinets are used for storage, ensure the keys are under the control of a designated staff member to enhance accountability and the duplicate keys are secured in the same way as for the store room.

- ☐ Lay down in guidelines the store security procedures as necessary. For example:
  - restrict access to the storeroom to designated staff members only;
  - give personal access codes or passes to the staff strictly on a need basis and instruct them to safeguard their own codes/passes;
  - record the names of persons given permission to enter the store room on an ad hoc basis and the reasons;
  - change the access codes whenever there are staff changes;
  - require the store room to be locked at all times except when in use or under guard; and
  - make spot checks to ensure compliance as appropriate.

2.3 Receipt of Inventory Items

Responsible Parties	Recommended Control Measures
Procurement Staff	☐ Copy purchase orders to the storekeeper for him to keep in view delivery to the warehouse.
	☐ Witness the receiving process and counter-sign the receipt in case of goods ordered in large quantity or of high-value.
Storekeeper	☐ Inspect the goods received against the specification and quantity shown in the purchase orders and certify receipt on the invoices or delivery notes if in order.
	☐ Report any goods in excess, short delivery or defective goods to the procurement unit or user as soon as possible.
	☐ Update the inventory movement records according to the certified receipts, with copies sent to the accounting section.

Accounting Staff	☐ Update the master inventory accounting records according to the certified receipts.

2.4 Issue of Inventory Items

Responsible Parties	Recommended Control Measures
Store Supervisor	☐ Design a standard form for requests for issue of inventory items.
User	☐ Raise requests for issue of inventory items using the standard request form.
Supervisor	☐ Ensure that requests for issue are justified (e.g. supported by production job orders) before endorsement as appropriate.
Storekeeper	☐ Verify the issue request before issuing the items and require the receiving staff to acknowledge receipt on the form with a copy sent to the accounts section. ☐ Issue stocks on a “first-in first-out” basis, particularly for items with an expiry date or a limited shelf life. ☐ Update the inventory movement records without delay.
Accounting Staff	☐ Update the accounting records according to the request forms duly signed by parties concerned.

2.5 Disposal of Inventory Items

Responsible Parties	Recommended Control Measures
Management	☐ Lay down the policy and approval authority for disposal of inventory items (e.g. defective or obsolete items).
	☐ Specify the disposal methods, such as donation or sale of usable items, or disposal as waste and the considerations to ensure consistency in approval of disposals.
	☐ Lay down the procedures for checking of inventory items before approval of disposal and the witnessing process.
Store Supervisor	☐ Design a standard form for requests and approval for disposal of inventory items.
User / Storekeeper	☐ Raise requests for approval of disposal using the standard disposal form.
Supervisor	☐ Approve the request for disposal and inspect the conditions of items before authorization.
	☐ Conduct spot-checks while the disposal is in progress (e.g. on the items and quantity).
Storekeeper	☐ Verify the approval given before releasing the items for disposal and require the receiving staff to acknowledge receipt.
	☐ Update the inventory movement records without delay and send copies to the accounts section.

Procurement Staff

- ☐ If the items are to be disposed of by sale, seek price quotations from buyers through competitive means.
- ☐ Document the offers properly.

Accounting Staff

- ☐ Update the accounting records according to disposal records.

2.6 Inventory Check

Responsible Parties	Recommended Control Measures
Management	☐ Lay down in guidelines the stock-taking and store inspection requirements, such as levels of staff responsible and frequency of checks. ☐ Require the staff responsible to report observations made during the inspection.
Storekeeper	☐ Conduct regular stock taking against the inventory records and report irregularities or stock depletion to the store supervisor. ☐ Produce periodic inventory reports for management review (such as stock in-take, issue, wastage, disposal, etc.). ☐ Verify before the incoming storekeeper the physical stock against the inventory records/ledgers whenever there are staff changes. ☐ Require the incoming storekeeper to sign the handover records showing the stock in store.

Store Supervisor

- ☐ Conduct surprise inventory checks, in particular on the valuable items.
- ☐ Ensure there is strong justification (e.g. normal wastage) before authorizing adjustment of the inventory records if necessary and document the justification.
- ☐ Investigate and report to the management any abnormal stock depletion or other irregularities.

Managerial Staff

- ☐ Review the inventory reports against any related data (e.g. normal wastage and sales data) and initiate enquiry if there is any anomaly (e.g. stock depletion).
- ☐ Conduct ad hoc surprise physical stock checks as necessary.

Accounting Staff

- ☐ Conduct periodic (e.g. monthly) reconciliation of the accounting and inventory records.
- ☐ Conduct periodic (e.g. annually) physical inventory checks or stock-taking.
- ☐ Make enquiry into and report to the management any unusual stock depletion or irregularities.

CHAPTER 3

FIXED ASSET ITEMS – KEY PROCESSES

Key Processes

Listed below are the key processes of management of fixed asset items. The recommended control measures are provided in Chapter 4 (the relevant paragraphs are quoted below).

Setting up a
Fixed Asset Management System
(4.1)

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Receipt, Storage, Issue, and
Disposal of Items *(4.2)*

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Inspection and Monitoring *(4.3)*

CHAPTER 4

FIXED ASSET ITEMS – CHECKLIST OF RECOMMENDED PRACTICES

4.1 Setting Up a Fixed Asset Management System

Responsible Parties	Recommended Control Measures
Management	☐ Classify property items that should be recorded as fixed assets (e.g. based on their type and value).
	☐ Lay down in guidelines the "ownership" of property items, i.e. the owner departments responsible for their safe keeping and require them to keep proper inventory records showing the staff given the items and the items' movements (e.g. computer equipment and cameras).
	☐ Prohibit staff from swapping their assigned property items or move them to different locations without the approval of the designated authority.
	☐ Require the owner departments to copy the fixed asset records to the accounting department or head office (as appropriate) for central record.
	☐ Require the owner departments to conduct regular stock-taking and inspection on the fixed asset items and specify the frequencies of such checks.
	☐ Arrange an independent unit (e.g. the accounting department) to conduct periodic inspections on the property items and report to the management any irregularities, such as loss or damages).
	☐ Specify the approval authority for disposal of fixed asset items based on their values, preferably at the management level and independent of the owner departments.
Owner Department	☐ Lay down the procedures and authorities for the issue of property items to individual staff, and the requirements for recording the items' movements and disposal.
	☐ Assign to each fixed asset item a unique identification number.
	☐ Maintain a property register or database to keep up-to-date records of all fixed asset items, e.g. the item's unique number, description, brand name, model number and serial number (if any), user, location, dates of manufacture and issue, and purchase price or estimated value.

- ☐ Assign a staff member of the appropriate level to control and manage the property items, including:
  - issuing items to users;
  - keeping the items' movement records;
  - notifying the management any unauthorized change in users or locations of the items;
  - amending the inventory records only with the endorsement of the designated authority;
  - arranging disposal of the items only with approval from the designated authority.
- ☐ Segregate the duties of asset management where practicable, e.g. separate the record-keeping and disposal duties.

Accounting Staff

- ☐ Keep independent accounting records on fixed asset items.

4.2 Receipt, Storage, Issue, and Disposal of Items

Responsible Parties | **Recommended Control Measures**

Receipt and Storage of Items

Designated Staff

- ☐ Adopt the procedures and control measures recommended in paragraph 2.3 as appropriate.
- ☐ Label each valuable item showing a unique identification number.
- ☐ Keep proper records of the items, with copies send to the accounting section or head office for central record.
- ☐ Adopt suitable safeguards as recommended in paragraph 2.2 to ensure the items are in safekeeping while in store.

Issue of Items

Owner Department

- ☐ Adopt the procedures and measures recommended in paragraph 2.4 as appropriate for the issue of fixed asset items to staff.

Designated Staff

- ☐ Ensure all property items (e.g. computer equipment and mobile phones) issued on a personal basis are returned upon the staff leaving the company or upon transfer to another post.

Disposal of Items

Owner Department

- ☐ Adopt the procedures and control measures as recommended in paragraph 2.5.
- ☐ Submit to the management periodic reports on the disposed items including the quantity and total value.

4.3 Inspection and Monitoring

Responsible Parties	Recommended Control Measures
Owner Department	☐ Assign a responsible staff member to conduct periodic and annual inspections as required on the property items in store or issued to users against the fixed asset register or database.
	☐ Conduct enquiry into any missing items and take appropriate follow-up action.
	☐ Produce periodic reports on fixed asset items for management information (e.g. asset value, any asset lost, damaged or written off).

Accounting Staff

- ☐ Conduct independent stock-taking and inspection on fixed asset items, make enquiry into any irregularities (e.g. missing items), and report to the management on the findings.

Management

- ☐ Review the fixed asset reports and initiate enquiry if there is any anomaly (e.g. frequent reports of missing items, or frequent disposal/replacement of valuable items).

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