



Feidhmeannacht na Seirbhíse Sláinte
Health Service Executive

HEALTH SERVICE EXECUTIVE

NATIONAL FINANCIAL REGULATION

INVENTORY CONTROL

NFR-19

NFR-19 Inventory Control

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19.1. Introduction

- 19.1.1.** Stores are operated in numerous locations through out the Health Service Executive (HSE) from the main store locations to hospital wards and office buildings that requisition from the main stores or in some cases purchase directly from suppliers.
- 19.1.2.** Fixed asset items in the stores are not treated as stocks for the purpose of this regulation.
- 19.1.3.** Inventory management policy is subject to the policies and procedures covered in National Financial Regulation NFR 01: Purchases to Pay Process (PTP). Refer HSE National Intranet - National Financial Regulations.

19.2. Purpose

- 19.2.1.** The purpose of this guide is to set out the policies and procedures to be applied to the control, supervision and proper usage of all HSE inventory and stores locations.

19.3. Scope

- 19.3.1.** Applies to all HSE staff employed in stores locations throughout the HSE.

19.4. Assistance / Further Information

- 19.4.1.** Additional information regarding this regulation should be addressed to the Assistant Chief Financial Officer (ACFO), Finance Specialists.
- 19.4.2.** Requests for changes or deviations from specified directives should be made in writing to the above ACFO, and may be implemented only after written authorisation is received.
- 19.4.3.** It is intended that this regulation will be regularly updated to reflect and incorporate new and additional legislative and other directives. Notifications will be issued on HSE National Intranet - National Financial Regulations and via email communications.

19.5. Effective Date

- 19.5.1.** This regulation is effective immediately and supersedes all prior directives issued relating to Inventory Control unless otherwise specified.

19.6. Policy

- 19.6.1.** Inventory should only be held where it is impracticable to purchase goods on “an as needed” or “just in time” basis due to the availability and/or specific nature of those goods.
- 19.6.2.** Each store will be effectively and efficiently managed to ensure that:
 - there is an accurate and up to date list of the stock held, indicating stock levels and price;

- high demand items are available with minimum delay and at a competitive price;
- appropriate data is available for all stocked items ;
- stock items will be maintained at optimum levels, to minimise supply delays, whilst minimising the investment of funds ;
- materials are stored safely and securely;
- stock items are available to approved users;
- reserved and restricted items are available to authorised users;
- Users are provided with timely and accurate information of store transactions.

19.6.3. All employees have the responsibility for the prudent use, care and safeguarding of HSE stocks in their possession. The fact that a piece of stock is generally of low value and is not recorded on the stock records does not alter this responsibility.

19.6.4. Heads of each budgetary unit is responsible for establishing adequate arrangements for the custody and control of any stocks or stores of materials held in their area within the overall security arrangements of the HSE.

19.6.5. To increase community aids and appliances recycling to the greatest extent possible, no new community aids and appliances can be purchased if suitable stock exists anywhere in the system i.e. the principle of universal ownership.

19.7. Procedure

19.7.1. Purchasing Stock

Purchasing of stock will be undertaken by staff responsible for each store. Procedures for purchasing are outlined in NFR-01: PTP Regulation at [HSE National Intranet - National Financial Regulations](#)

19.7.2. Receiving

Receipting of stock will be undertaken by staff responsible for each store. Procedures for receipting are outlined in NFR-01: PTP Regulation at [HSE National Intranet - National Financial Regulations](#)

19.7.3. Requisition of Stocks

(Includes Pharmacy Stock and Sterile supplies)

Requests for goods and services can be for:

- Stock Items
- Routine Non Stock Items
- Non Routine Non Stock Items

19.7.4. Receive Request

A request for goods can be received by two methods.

1) Electronically - Total Inventory Management (TIM) or Materials Requirement Planning (Stock transfer).

2) Manual Requisition – Either Pre Printed Requisition Form or scanned copy of requisition via e-mail, fax etc.

19.7.5. A requisition must contain:

- Cost Centre.
- Delivery Address.
- Material Code - Where Available.
- Description of the product required.
- Quantity required.
- Signature of budget holder or designated approver.
- Date material is required

Request for routine stock items will follow the Goods Issue Process.

Requests for Routine Non Stock items and Non Routine Non Stock Items will be undertaken by staff responsible for each store. Procedures for purchasing are outlined in NFR-01: PTP Regulation at HSE National Intranet - National Financial Regulations

19.7.6. Goods Issue Process

The goods issue process covers the receipt of a request (Requisition) to the delivery of the goods to the specified location. All goods issues must be supported by an approved requisition. It is the responsibility of the approver to ensure that the relevant budget is in place.

All goods issues must adhere to HSE national policies and procedures. The issue of goods must be recorded prior to issue and before the items leave the stores.

Once picked all issues must be double checked for:

- Product – The correct product is been issued.
- Quantity - The quantity picked matches the quantity on the issue note/requisition. There is a requirement for particular awareness of potential changes to pack sizes/units per box to ensure correct quantity is picked.
- Quality – The goods are of the correct quality, are not damaged and have sufficient shelf life remaining.
- Batch Number – batch numbers match the batch numbers recorded.
- Age – oldest stored items should be utilised first.

All goods issued must be supported by a priced issue note. Issue notes should be in duplicate, a signature should be obtained at the time of delivery and the signed copy should be returned to the stores for their records.

19.7.7. Returns to Stock

No returns to stock should be accepted without the prior approval of the inventory manager. Goods returned should be checked for quantity and quality. Proper procedures shall be followed to prevent cross contamination of products where products may have been stored inside hospital wards etc.

Returned goods should be entered on the stock control system as near to the event as possible. A returns document shall be issued to the returning location showing the quantity and the value of the goods returned/credit issued.

Goods returned which are not stock items should be returned to the relevant supplier. If it is not possible to return the goods to the supplier an alternative user of the goods should be sought. If this is not possible the goods should not be accepted into stocks and should be disposed of in accordance with disposal procedures as outlined in paragraph 19.8 below.

19.8. Obsolete / Slow Moving Materials

19.8.1. Obsolete inventory is inventory that is essentially no longer of use.

19.8.2. Slow moving stock items are items that have had no usage activity for a specified number of days, or whose usage rate is significantly below the historical or expected average.

19.8.3. As part of good materials management practice staff with responsibility for managing goods should on a regular basis (at least twice yearly) examine materials which are obsolete or slow moving. When examining those items the following needs to be taken into consideration:

- Are the items obsolete, slow moving or out of date?
If the items are obsolete or slow moving or out of date they should be disposed of in an appropriate fashion.
- Can the items be returned to supplier?
Discussion should take place with the supplier with a view to returning surplus stock taking into account use by dates, current value and restocking costs that may be charged by suppliers.
- Is there an expectation that the items will be used in the future?
If it is expected that the items will be used in the future every effort should be made to determine the expected time span over which they will be used. Taking this into account and the use-by date on the items, efforts should be made to (a) return the surplus to the supplier or (b) transfer the surplus to other areas or services within the organisation which may use the items.
- Could the items be used elsewhere in the organisation?
If there is use for the items in other areas of the organisation the items should be transferred or charged where appropriate.
- Could part of the cost be recouped through sale?
If it is proposed to sell items the guidelines for the disposal of assets should be used.
- Could the items be used by a charitable organisation?
Appropriate items (i.e. clothing) for which there is no further use and where every effort has been made to recoup the cost incurred may be offered to charitable organisations
- Disposal:
Where all the above options have been exhausted and no solution found the residue of items may be disposed of. Disposal of items should be through a recognised licensed waste management company.
- Authorisation:
 - Before proceeding with any of the above options a recommendation endorsed by the Inventory Manager should be sent to the appropriate Budget Holder(s) for authorisation.
 - Where the write off exceeds €10,000 prior approval from HSE Finance Vote Treasury & Capital Unit is required.
 - Reports on all write off under this threshold should be forwarded to HSE Finance Vote, Treasury & Capital Unit at agreed intervals.

19.9. Emergency Issues

19.9.1. Requests for emergency items should be supported by a signed requisition. If a signed requisition is not available the person issuing the goods must record the request in an emergency goods issue book. This should be in duplicate and a signed copy should be retained in the stores. A properly authorised requisition should be obtained as soon as practically possible. The recording of the goods issue should take place as soon as possible and the number of the emergency issue note should be recorded on the goods issue. The issue note must be signed by the receiver and a copy retained in the stores for their records.

19.10. Security

19.10.1. Entry points to storage areas should be securely locked at all times. Avoid leaving storage areas unlocked when unattended.

19.10.2. Access should be confined to Supplies staff.

19.10.3. All other entry should be by request or invitation of management.

19.10.4. Where possible there should be a separate entry to offices attached to Supplies department.

19.10.5. Vendor's delivery personnel should not have access to storage areas except under supervision of Supplies Officer.

19.10.6. Receiving area should be separated from stock holding areas.

19.10.7. Issuing area should be clearly separated from stock holding areas and receiving areas.

19.10.8. Lock small and valuable stock items in cabinets.

19.10.9. Record manufacturer's serial numbers on department records for sensitive or theft-prone items under the threshold to meet requirements for tagging.

19.10.10. Secure by bolting, or other means, valuable stocks to discourage thefts, to include CCTV and alarms systems where appropriate. Designated staff should be given responsibility for the security of the keys/codes and combinations to these security devices.

19.10.11. On a regular basis, convey to all faculty and staff in the area, the importance of being vigilant in the care of HSE property.

19.10.12. Where inventory is stored at point of use i.e. hospital wards, catering departments, access should be restricted to designated staff.

19.10.13. All directives in relation to fire safety, hazard identification & management and risk management should be followed in adherence to the policy and procedures outlined in the HSE Corporate Safety Statement, 2009

19.11. Safe Storage

19.11.1. All storage areas should be secure.

19.11.2. There should be a safe working environment for staff and visitors.

19.11.3. The area should be suitable for the storage of the items held.

19.11.4. The area should be kept in a clean and uncluttered state with easy access to all stock.

19.12. Reporting

19.12.1. Up to date records, whether manual and/or electronic, including details of all receipts, issue, balances of stocks on hand etc. must be maintained.

19.12.2. Relevant stock management reports should be run on a regular basis to assist with stock management

- Slowing Moving Stock Items.
- Material by expiry date.
- Material by batch number.
- Any other reports deemed appropriate.

19.12.3. Appropriate reports should be made available to stakeholder(s) on request.

19.12.4. Appropriate General Ledger postings should be made to ensure accurate recording of write offs and provisions for obsolete/slow moving etc. stocks.

19.13. Stock Rotation

19.13.1. Strict stock rotation procedures should be followed. Attention should be paid to Batch Numbers and Best Before dates, when placing or removing stock items from stores.

19.14. Stock Catalogue

19.14.1. A catalogue of stock items will be maintained and updated on a regular basis.

19.14.2. The use of high level codes should be avoided.

19.14.3. Requests for new materials must be made in writing to the local catalogue manager. A search of existing materials should be carried out prior to requesting a new material. Trials of new products and use of samples should be in agreement with the local inventory office.

19.15. Stock-Taking

19.15.1. Policy

A year-end stock take of consumable items must be carried out in all locations where significant stocks¹ are held. Consumable items are items purchased with the intention of being used up during the course of normal operations.

Physical inventory is valued at the end of the accounting period to identify and carry forward those costs which were incurred before that date but which will not be consumed in the provision of services until a later period.

¹ Significant stocks are those which are likely to materially affect the local cost reporting and are cost efficient to count. It is the responsibility of budget holders to determine the circumstances in each case.

Stock is valued at the lower of cost and net realisable value (NRV) taking into account deterioration, obsolescence or change in demand. NRV is the estimated proceeds of sale less costs to be incurred in the sale of stock.

Recycled stocks shall be counted but allocated a nil NRV as part of the stock-take value recordings. Recycled stock generally refers to equipment that is passed through a system again for further use.

19.15.2. Planning Prior to Stock-take

Time spent planning and preparing for the physical stock-take will streamline the count process and reduce errors and rework. One manager in each stock location should be assigned responsibility for the stock-take. This manager's responsibilities will include:

- *Organising counting teams with clearly defined roles and responsibilities.*
 - ✓ The stock counting process and the stock reconciliation should be performed by suitably trained staff and supervised by an independent person.
 - ✓ This independent person should not be the person who checks in or receives stock, maintains the stock records for the items, or is responsible for the daily security and accountability of the stock.
 - ✓ If supplemental resources are required consideration should be given to bringing staff in from other areas.
 - ✓ Count teams should have at least two members per team. The number of people involved will depend upon the size and complexity of the organization and the items being counted.
- *Establish a master schedule* that sets the beginning and completion dates for both the counting process and the stock reconciliation.
 - ✓ Physical stock-takes are to be completed as near to the year end of 31 December each year.
 - ✓ Stock-takes completed prior to 31 December should be conducted on a date no earlier than 1 December and the count to take place at a time when the physical stock on hand is representative of the average year end stock holding levels.
 - ✓ In instances where either (i) the stock-take is conducted prior to 1 December or (ii) stocks on hand do not represent the average year end stock holding levels, the manager will be required to reconcile stock movements occurring from the date of the count to 31 December to derive the actual year end stock figure.
- *Notify affected parties* of dates and times of stock-take date(s) providing adequate lead time to plan appropriately. For example,
 - ✓ Notify suppliers if deliveries will not be accepted during this time.
 - ✓ Advise customers in advance of the shut-down period.
 - ✓ Inform selected employees to allow them sufficient time to plan for the activity.
 - ✓ Inform finance who must issue advance notification of a minimum of two weeks to independent observers (Comptroller and Auditor General (C&AG), Internal Audit). The presence of a finance office representative at the counts should be considered at least on a cyclical basis.
- *Purchase necessary supplies* before the count. Supplies might include:
 - ✓ Count stickers, pens, markers, clipboards, calculators, tape, scales, step stools.
 - ✓ If needed, special materials for handling product, such as plastic gloves or masks.
- Prepare the storage area for the stock count.

- ✓ Clean all areas for ease of counting.
- ✓ Make sure like items are grouped together.
- ✓ Arrange items so they can be easily counted (i.e., in "batches").
- ✓ Ensure there are no hazards in the warehouse that could be dangerous during the stock count, such as boxes to trip over, wet floors, items that could fall, etc.
- *Develop written physical stock instructions* for individuals participating in the stock count in addition to the production of *prenumbered stocktaking records sheets*.
- *Establish clear cut off guidelines, identifying which items to include or exclude from the stock count.*
 - ✓ If possible, complete all handling and recording of stock products before the physical stock count begins. This includes receipts, returns, consolidation between stocking locations, etc.
 - ✓ No movement of any stock should be permitted during the physical count.
 - ✓ If movement is required, backup documentation should be maintained and the quantity reflected in the count or subsequent discrepancy reconciliation.

19.15.3. Conducting the Physical Count

- *Review counting instructions* with the counting teams before they begin. Provide examples of how to find codes, units of measure, quantities, etc. Demonstrate an actual count. Explain the complete process, including reason for the count, storage area and stock layout, numbering and distribution of count sticker, count sheets etc.
- *Control of count sheets* helps ensure completeness and accuracy of the count.
 - ✓ Staff conducting the count should sign the sheets.
 - ✓ Stock sheets should be prenumbered.
 - ✓ All stock considered to be damaged or obsolete by the count staff should be brought to the attention of the manager to determine if they should be included in the count.
- Before the stock-take is completed and receipts and issues may resume:
 - ✓ *Variances between physical and system stock should be reviewed* and stock should be re-counted by the count team to verify, if necessary, to ensure that no counting or cut off errors have occurred.
 - ✓ *A final tour of the location* should be made to ensure that all stock has been counted
 - ✓ If there are still discrepancies between the count and the store records after the recount and investigation has taken place, discrepancy forms should be completed detailing the reasons for any differences. The discrepancy form should be signed off by the Manager in charge of the count or officer designate before stores can reopen and this form should accompany the stock sheets.

19.15.4. Cycle Counting

Cycle counting is a method of physical stock where stock is counted at regular intervals within a fiscal year. These intervals (or cycles) depend on the cycle counting indicator set for the material.² The cycle counting method of physical stock is advantageous in that it allows fast-moving items to be counted more frequently than slow-moving items.

² In SAP this indicator is set on the Material Master Record.

The cycle counting indicator is used to group the materials together into various cycle counting categories (for example, A, B, C, and D), prioritised on consumption, value or other relevant criteria.

A items are counted at monthly intervals (12 counts per year).

B items are counted at two monthly intervals (6 counts per year).

C items are counted at 6 monthly intervals (2 counts per year).

If the accuracy of the cycle counting can be maintained at a sufficiently high level the need for an end of year stock check may be eliminated.

Agreement should be reached with the local manager prior to implementing cycle counting/continuous stock.

The presence of a finance office representative at the counts should be considered at least on a cyclical basis.

The production of count sheets, rechecking of differences etc. should be in compliance with the stock-taking procedures above.

19.15.5. Updating the financial systems

After all stock has been counted and the discrepancies checked, a variance reports should be produced. At this point, on the manager's authorisation, the stock-take will be closed and the system records will need to be updated to reflect the physical stock. Any proposed adjustment to the stock valuation is required to be approved by the local managers and financial accountant.

19.16. Stock Valuation

The cost of unsold or unconsumed stocks to the extent that it is believed to be recoverable is carried forward until the period in which the stock is sold or consumed.

19.16.1. There are the following basic approaches to valuing stock that are allowed by the HSE.

1. *First-in, First-out (FIFO)* : Under FIFO, the cost of goods sold is based upon the cost of material bought earliest in the period, while the cost of stock is based upon the cost of material bought later in the year. This results in stock being valued close to current replacement cost.
2. *Weighted Average*: Under the weighted average approach, both stock and the cost of goods sold are based upon the average cost of all units currently in stock at the time of reporting. When stock turns over rapidly this approach will more closely resemble FIFO.
3. *Any other method similar to any of the methods mentioned above.*

19.17. MRP / Point of Use Stock

19.17.1. Maximum and minimum stock levels should be reviewed at 6 monthly intervals to ensure their accuracy. Any necessary changes should be made to ensure compliance with the stock holding policy of the HSE and to ensure optimum stocks are available.

19.18. Health & Safety

- 19.18.1. Refer to HSE Corporate Health and Safety. ([HSE Corporate Safety Statement, 2009](#)) and other relevant Guides.

19.19. Roles & Responsibilities

19.19.1. HSE Directorate

The HSE is committed to the highest standards of openness and accountability in all processes and it is the responsibility of the HSE Directorate to:

- Ensure it has suitable policies and practices in place to protect the HSE from illegitimate expenditure, and to ensure that monies are used appropriately and effectively.
- Ensure that it communicates its policy to employees in a formal policy statement.

19.19.2. Director General (DG)

The DG of the HSE carries overall responsibility for the appropriate spending of the Vote, and is accountable to the Oireachtas (via the Public Accounts Committee). Responsibility for compliance with NFRs is with line management and all employees.

19.19.3. Line Management

Line managers have responsibility of maintaining proper internal controls in the stores. Specific responsibilities are as follows:

- Ensure this regulation and other applicable guides have been communicated to each employee in his/her area of responsibility.
- Set example by complying fully with procedures and controls.
- Know the location of all stocks and assure that such stocks are reasonably secure from possible theft and other hazards.
- Review, verify and respond to the annual stock report of the status of departmental stock.
- Discourage theft and loss of HSE property by assigning proper responsibility.
- Ensure that significant surpluses, deficiencies, or losses of stocks are reported immediately to the relevant Assistant National Director of Finance who shall report as appropriate.

19.19.4. Employees

Every employee has a responsibility to ensure that public assets that are entrusted to them are safeguarded.

19.19.5. Finance Division

The Finance Division should arrange random checks of stocks and stores as considered necessary.

19.20. Segregation of Duties

- 19.20.1. It is the responsibility of each line manager to ensure appropriate segregation of duties to eliminate possibility of fraud.

19.21. Local Procedures

- 19.21.1.** Each location must prepare and implement a procedure outlining the local process and staff designated for particular tasks. This procedure must be available for review purposes to Internal Audit and the C&AG upon request.
- 19.21.2.** All employees who are involved in the process must be fully inducted in the workings of the procedure.
- 19.21.3.** These procedures shall designate individuals within the division to implement the policy and procedures.
- 19.21.4.** Staff must fully understand their responsibilities and it is the responsibility of each location Manager to ensure that all staff are made aware of their roles and respective responsibilities.

19.22. Interdepartmental Communication

- 19.22.1.** It is the responsibility of each line manager to ensure that there is effective co-ordination between line managers, Health Business Services (HBS) Procurement, Finance and Stores Locations. Each business unit must prepare and implement a procedure outlining this communication process. This procedure must be available for review purposes to Internal Audit and the C&AG upon request.

19.23. Training

- 19.23.1.** Staff training must be part of policy implementation to ensure that every employee is taught the importance of the efficient and economic control over HSE stock assets.
- 19.23.2.** Each location should train all current employees of the policies and procedures of this regulation and should train every new employee as part of the employee's initial induction.
- 19.23.3.** Furthermore, the policy should set a schedule for continuing refresher training to ensure that employees remain vigilant with respect to their obligations.

19.24. Reporting of Irregularities

- 19.24.1.** Any member of staff who considers that there may have been an irregularity that could lead to misappropriation of HSE assets or an instance of fraud must inform their line manager immediately. The manager to whom the matter has been reported must inform a Divisional Assistant National Director or equivalent salary grade, relevant Assistant National Director of Finance and the National Director Internal Audit for the appropriate action.

19.25. Audit

- 19.25.1.** The external and internal auditors of the HSE have the right to unrestricted access to all vouchers, documents, books of account, and computer data and to any other information which they consider relevant to their enquiries and which is necessary to fulfil their responsibilities. Both internal and external auditors also have the right to direct access to any employee or person responsible with whom it is felt necessary to raise and discuss such matters.

- 19.25.2.** Sample checks may take place at regular intervals in each financial year.
- 19.25.3.** Every employee shall attend at such place and at such time as may be appointed by the Auditor and shall submit his/her books and accounts for examination and checking.
- 19.24.4.** Where any irregularities are disclosed at the checking of the accounts of an employee, the Auditor shall report such irregularities to the Chief Financial Officer (CFO), who shall cause a full investigation to be made and shall take all necessary action.