

Inventory Adjustment Policy Directive

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**Government
of South Australia**

SA Health

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Inventory Adjustment Policy Directive

1. Policy Statement

The purpose of this policy is to ensure consistency is applied in recording and performing selected inventory adjustments across SA Health Sites.

This policy applies to inventory stock at any SA Health location, excluding SA Pharmacy and SAAS, which may require adjustments in the inventory system for reasons other than adjustments as a consequence of write-offs. This policy applies to all Oracle (OCS) sites.

2. Roles and Responsibilities

2.1 Chief Executive

The Chief Executive is responsible for taking reasonably practical steps to develop and issue system-wide policies applying to Local Health Networks (LHNs), the SA Ambulance Service and the Department for Health and Wellbeing.

2.2 Local Health Network Governing Boards

The Governing Boards of each LHN are responsible for taking reasonably practical steps to ensure that effective clinical and corporate governance frameworks (where relevant) are in place to ensure the LHNs are compliant with this policy directive.

2.3 Director, Financial Accounting

The Director, Financial Accounting is responsible for overseeing and ensuring the completion of end of month reconciliations of general ledger balances to stock on hand reports.

2.4 Director, Procurement

It is the responsibility of the Director, Procurement to:

- Review monthly reports and take any action as necessary.

2.5 Inventory Manager

It is the responsibility of the Manager, Inventory Control to:

- oversee processing of the inventory adjustments
- ensure appropriate evidence, records and reports are retained regarding inventory adjustments
- review inventory adjustment reports regarding the Distribution Centre and LHN bulk stores and make recommendations, as appropriate
- ensure that appropriate records and regular reports regarding inventory adjustments are provided to the Director, Procurement for review
- supply records and reports regarding inventory adjustments to the Director, Financial Accounting upon request.

2.6 Health Service Support (HSS) Managers

It is the responsibility of the HSS Managers, for all LHN sites, to report material inventory adjustments (that is, adjustments that are greater than five percent of total stock held at the site), to Inventory Manager.

Health Service Support Managers are responsible for:

- reviewing adjustment reports and analysing them to identify trends and submitting

responses as required

- performing investigations of discrepancies as required and disclosing the respective reasons that are identified and highlighting any anomalies
- completing reports, as required
- identifying and reporting of remedial actions or proposals for reducing errors, enhancing inventory management or eradicating any undesirable circumstances.

2.7 Authorising Delegates

It is the responsibility of all authorised delegates who approve inventory adjustments to ensure that any required documentation and/or evidence is submitted to support any inventory adjustments they approve.

All approvals for inventory adjustments listed herein must be made in accordance with this policy.

2.8 Officers Who Process Inventory Adjustments

Officers who process inventory adjustment transactions may only do so if approval from the appropriate delegate is obtained in accordance with this policy. Evidence of such approval must be retained for audit purposes.

2.9 Distribution Centre and/or Bulk Store Staff

There may be Service Level Agreements that encompass inventory adjustments and these must be complied with by any respective staff, as required.

3. Policy Requirements

Inventory adjustments record the change in the quantity and/or value of stock items in the inventory system to reflect the actual stock on hand.

Adjustments that result from scheduled or exception based cycle counts are further dealt with in the SA Health's [Inventory Stocktake Policy Directive](#)

Adjustments resulting from lost, stolen, expired, damaged, obsolete and redundant inventory that require write-off are dealt with in the SA Health's [Inventory Write-Off Policy Directive](#).

This policy:

- deals with all inventory adjustments requiring approval of changes to inventory balances and the treatment of financial liability for variances to LHN bulk store inventory.
- provides an explanation regarding the types and reasons for adjustments
- specifies approvals that are required for inventory adjustment transaction/s
- specifies segregation of duties between officers counting inventory and providing approvals
- ensures that adjustments are processed in accordance with Australian Accounting Standards.

3.1 Inventory Model

Under the existing supply chain operating model, ownership of all inventory items held in health unit bulk and holding stores was transferred to the Department for Health and Wellbeing (Department). This included transfer from the health unit's balance sheet to the Department's balance sheet. Ownership of inventory held in imprest remains with the health unit and is reflected on the health unit's balance sheet. Inventory is expensed each time the imprest is replenished.

3.2 Types of Inventory Adjustments

Inventory adjustments (for reasons other than adjustments as a consequence of inventory write-offs and cycle counts) include, but may not be limited to:

- price variance adjustments
- unit variance adjustments
- reversals
- system errors.

3.2.1 Unit Adjustments

Unit adjustment transactions performed within the OCS system will only be processed for SA Health owned inventory.

This inventory adjustment increases or decreases the *quantity* of stock on hand in the system.

A unit adjustment is required when the unit of measure conversion does not reflect the packaging hierarchy of the stock physically held on hand. These adjustments can be a result of the supplier changing their packaging configuration without the relevant changes being reflected in OCS in a timely manner. Generally, both the quantity of stock and the valuation of stock will balance following an Account Alias 'Issue' and 'Receipt' unit adjustment.

3.2.2 Price Adjustments

Price adjustment transactions performed within the OCS system will only be processed for SA Health owned inventory.

This inventory adjustment may increase or decrease the value of stock on hand in the system and results from changes to the cost of stock where a discrepancy in pricing exists. An example is costing changes brought about by purchase order prices being incorrect or items being receipted against the wrong unit. Price adjustments do not affect the quantity of stock on hand.

3.2.3 Price and Unit Adjustments

Price and unit adjustment transactions performed within the OCS system will only be processed for SA Health owned inventory.

This inventory adjustment increases or decreases both the quantity and value of stock on hand in the system.

There are various causes to bring about the requirement of processing both unit and price adjustments concurrently such as but not limited to:

- data creation errors
- inventory processing errors (e.g. receipts created against the incorrect unit)
- supplier changing their packaging configuration without the relevant changes being reflected in OCS in a timely manner
- manufacturer packaging configuration changes without the relevant changes being reflected in OCS in a timely manner.

3.2.4 Adjusted Out Previously – reversal of transaction

This inventory adjustment reversal increases stock on hand and is a reversal or partial reversal of a previous adjustment and may be undertaken where it is identified that the original adjustment is subsequently found to be incorrect.

The necessity and validity to make an inventory adjustment reversal can only arise from a reversal of the same circumstances that brought about the original inventory adjustment in the first instance.

The reversal adjustment must be referenced to the initial adjustment.

3.2.5 System Error – transact into stock pending reversal (OCS system adjustment only)

This inventory adjustment temporarily increases stock on hand in the system and is processed to accommodate those OCS system processing issues which would otherwise mean that subsequent transactions could not continue to be processed in the system for the respective item.

The initial 'Receipt' adjustment is performed to bring the stock into the inventory to permit processing to continue.

Once the original transaction that caused the system processing issue in OCS is processed, a corresponding 'Issue' adjustment must be processed and referenced to the initial 'Receipt' transaction.

3.2.6 Stocktake Inventory Adjustments

Cycle count stocktakes will identify differences between actual stock on hand vs balance of stock on hand as recorded in the balance sheet. These differences can occur for a number of reasons e.g.:

- Stock being misplaced
- Stock being taken by hospital staff without necessary paperwork
- Emergency supplies being removed without the necessary paperwork
- Unit of measure error
- Errors during picking process.

For information regarding inventory stocktake processes and processing of associated adjustments, refer to the [Inventory Stocktake Policy Directive](#).

3.3 Approval and Processing of Inventory Adjustments

Approval for inventory adjustments must be obtained from the appropriate delegate under the *Inventory Adjustment, including re-valuation* authorisation as recorded in the Governance and Delegations System (GADS) or any other equivalent approved delegations of authorisations records.

Inventory adjustments are to be approved using an Account Alias form. All inventory adjustments require the appropriate evidence and details to be fully documented and that information retained. This will enable the delegate to make an informed decision regarding approval of the adjustment transaction.

This approval is the exercising of the authorisation *Inventory adjustment, including re-valuation* and must be obtained prior to or at the time of processing the inventory adjustment. Segregation of duties must be adhered to whereby any delegate responsible for approving inventory adjustments is not to be involved in the counting of inventory related to that particular approval.

Approved inventory adjustments are to be processed to OCS using the Miscellaneous 'Issue' and 'Receipt' function within the Warehouse Management System and posted to the Distribution Centre's dedicated 'Account Alias' account (general ledger account).

3.4 Records Management

All inventory adjustments are required to be fully documented using appropriate forms which record the inventory adjustment details and the relevant transaction registers that are produced by the system are to be retained for future reference and audit purposes.

Appropriate record keeping is required regarding:

- key decisions and associated processes related to inventory adjustments
- discrepancy investigations, evidence and outcomes
- reports and associated actions

- approvals to process inventory adjustments
- processing of inventory adjustments.

3.5 Exemption

All parties in SA Health are to comply with the Inventory Adjustments Policy.

An exemption to any aspect of the SA Health Inventory Adjustment Policy can only be sought via written request to the Executive Director, Procurement and Supply Chain Management. Sufficient time is to be allowed for this exemption request.

4. Implementation & Monitoring

4.1 Compliance Monitoring

Compliance with this policy will be monitored by:

- the Inventory Manager being responsible for all operational and
- reporting aspects of inventory adjustments
- internal auditing processes
- reporting requirements of the policy.

4.2 Risk Management

The risks associated with performing inventory adjustments are mitigated by the policy requiring relevant staff to ensure that:

- inventory adjustments are approved by an appropriate delegate with the authority titled Inventory adjustment, including re-valuation.
- all inventory adjustments are clearly identified as to what type of adjustment it is
- all inventory adjustments are to be supported by the appropriate evidence and details fully documented.
- end of month reconciliations of general ledger balances to stock on hand reports are performed.

4.3 Reporting

Additional inventory reports will be provided to Financial Accounting on request by the Inventory Manager. These reports will enable independent review of inventory and inventory adjustment transactions by financial accounting staff as required.

For LHN sites, the Manager, Inventory Control is to be advised by HSS staff of any material inventory adjustments (that is, adjustments greater than five percent of total stock held at the site) before they are processed.

Reports detailing inventory adjustments relating to the Distribution Centre and the bulk stores will be issued monthly and six monthly or at any other frequency as required.

HSS Managers will perform investigations and report on discrepancies and adjustment transactions as listed in this policy and in particular the section titled Responsibilities.

The Inventory Manager will review the inventory adjustment transactions reports and investigation findings and recommend or take appropriate actions as listed in the section titled *Roles and Responsibilities*.

5. National Safety and Quality Health Service Standards

N/A

6. Definitions

In the context of this document;

- Health Unit means: Local Health Networks, excluding SA Pharmacy and SAAS.
- OCS refers to Oracle Corporate Systems

7. Associated Policy Directives / Policy Guidelines and Resources

The following documents are either referenced or related to this document:

SA Health Policies

[Inventory Stocktake Policy Directive](#)

[Inventory Write-Off Policy Directive](#)

Oracle Business Process Overviews (BPO)

[Miscellaneous Transactions: Overview](#)

Oracle Business Process Procedures (BPP)

[Create a Miscellaneous Transaction](#)

[Cycle Counts – Bulk Organisations Standard Operating Procedure](#)

[Cycle Count & Account Alias Process](#)

Health Service Support Stocktake

[Define Physical Inventory](#)

[Generate Physical Inventory Tags](#)

[Record a Physical Count using the Inventory Management \(IM\) Module](#)

[Review and Approve Physical Count Variances](#)

[Void Unused Tags](#)

Managing Cycle Counting

[Add or Remove an Item from a Cycle Count Item List](#)

[Manually Generate a Cycle Count Request](#)

[Setup and Schedule Cycle Counts](#)

[View Cycle Count Entries and Adjustment Report and Cycle Count Adjustment](#)

[Approvals Summary](#)

[Cycle Counts – Bulk Organisations Standard Operating Procedure](#)

[Cycle Count & Account Alias Process](#)

Miscellaneous Transactions

[Create a Miscellaneous Transaction](#)

8. Document Ownership & History

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25/11/2016	V2.1	Executive Director, Procurement and Supply Chain Management	Minor policy amendments to reflect audit requirements and business practices see 5.1 and 5.3
21/10/2016	V2.0	Portfolio Executive	Policy amendments to reflect post OPS deployment
06/05/2016	V1.1	Principal Policy and Compliance Officer	Fixed links
24/04/2014	V1.0	Portfolio Executive	Original version