

Inventory Write-Off Policy Directive

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SA Health

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Inventory Write-Off Policy Directive

1. Policy Statement

The purpose of this policy is to ensure SA Health maintains optimum inventory management through controlled and methodical management of stock items to be written off and corresponding inventory adjustments are processed in accordance with Australian Accounting Standards.

This policy applies to inventory stock owned by the Department for Health and Wellbeing, at any SA Health location, excluding SA Pharmacy, requiring inventory write-off transactions to be processed in the inventory system; these are known as Account Alias transactions. This policy applies to sites using the Oracle Corporate System (OCS).

Stock that is damaged when received from a supplier is not dealt with in this policy. Information about damaged stock received from suppliers is located in SA Health's returns processes documented on Oracle Assist.

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 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 Inventory Manager

It is the responsibility of the Inventory Manager to:

- manage the process of writing-off the physically damaged, expired, redundant or obsolete stock
- oversee processing of the inventory write-offs
- ensure appropriate evidence and records are retained regarding inventory write-offs
- review inventory adjustment reports regarding the Distribution Centre and LHN bulk stores and make recommendations, as appropriate
- ensure that appropriate records and monthly reports regarding inventory write-offs are provided to the Director, Procurement for review
- supply records and reports regarding inventory write-offs to the Director, Financial Accounting upon request.

2.5 Director, Procurement

It is the responsibility of the Director, Procurement to:

- review monthly reports and take any necessary action

2.6 Local Health Network and SA Ambulance Services (SAAS) Staff

LHN and SAAS staff, in conjunction with Health Service Support (HSS) staff:

- must review annual stock usage reports
- work collaboratively with the personnel of the SA Health Distribution Centre to manage any transitions arising from making stock obsolete.

2.7 Health Service Support Managers

It is the responsibility of the HSS staff, for all LHN sites to:

- provide annual stock usage reports to LHN staff for review
- advise the Inventory Manager of changes in stock requirements after the annual stock usage review.

2.8 Authorising Delegates

It is the responsibility of all authorised delegates who approve write-offs to ensure that the appropriate documentation and/or evidence is submitted to support any inventory write-offs approved.

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

2.9 Officers Who Process Inventory Write-Off Adjustments

Officers who process inventory write-off 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.

2.10 Distribution Centre and/or Bulk Store Staff

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

3. Policy Requirements

Inventory write-offs record the decrease in the quantity and/or value of stock items in the inventory system to reflect the actual stock left on hand.

Controlled management of stock to be written off is necessary for robust and prudent stock control and accounting. This will avoid unnecessarily carrying extra and unusable stock such as expired, damaged or obsolete stock that will bring about less efficient store/warehouse operations resulting in negative impacts such as:

- unnecessary cost of holding stock that will not be used
- unnecessary use of warehouse space
- risk of expired, damaged or obsolete stock being accidentally picked for filling orders.

For information on other inventory adjustments, refer to SA Health's [Inventory Stocktake Policy Directive](#) and [Inventory Adjustment Policy Directive](#).

3.1 Reasons for Inventory Write-Offs

There are a number of reasons that may require stock to be written off via a Miscellaneous Issue Adjustment or Account Alias Adjustment transaction. These include reasons defined by Australian Accounting Standards and SA Health business requirements. Such reasons may include but are not limited to:

- loss of stock (cannot be located)
- theft of stock
- stock becoming unserviceable due to damage
- stock reaching expiry
- obsolescence of stock
- redundancy of stock
- unsaleable stock due to unit of measure changes.

For information on stocktake variances and related inventory adjustments refer to SA Health's [Inventory Stocktake Policy Directive](#). For other inventory adjustments that are not stocktake adjustments or write-offs refer to SA Health's [Inventory Adjustment Policy Directive](#).

3.2 Loss and Theft of Stock

Lost or stolen stock requires a write-off inventory adjustment within one working day of identification as lost or stolen.

3.3 Damaged Stock

Stock can become damaged whilst:

- being held within a warehouse
- in transit to the Distribution Centre or LHN and SAAS sites

Damaged stock must not be distributed to LHN and SAAS sites.

The initial determination whether the damaged stock should be returned or should be destroyed and written-off due to it being no longer useable, should be made by the onsite staff in accordance with Inventory Management processes. Where it is not possible to return damaged stock to the supplier, an inventory write-off is required as per the Account Alias process

3.4 Expired and Expiring Stock

Stock is considered expired when it is within one month of the expiry date or if it has already reached the expiry date recorded on the stocked item or its packaging as determined by the manufacturer.

Expired or soon to expire stock must either be destroyed or returned to the supplier in accordance with SA Health's returns processes documented on Oracle Assist. Expired stock to be destroyed must be written off.

Expired stock must not be distributed from the Distribution Centre to LHN bulk stores or SAAS sites.

3.5 Obsolete, Redundant and Unsaleable Stock

3.5.1 Obsolete Stock

Items can become obsolete for various reasons such as issues with supply, suppliers or distributors.

Issues with supply and distribution which may bring about stock obsolescence include:

- supplier ceases manufacturing an item
- supplier may have a manufacturing issue which causes an inability to supply an item for an extended period of time resulting in an alternative being sought and subsequently the new item becomes the preferred one
- supplier ceases to deal with a certain manufacturer which therefore makes the item unavailable.

Sometimes it is necessary to consolidate items that are duplicated in the stock catalogue. This may result in a Account Alias Adjustment in and out to correct the variance.

3.5.2 Redundant Stock

In cases when stock will no longer be used at individual sites, this is simply a discontinuation of use (redundancy) and not stock obsolescence. Stock can become redundant by matters of choice and need such as:

- preference for a superior quality product
- preference for a more economical product
- change in clinical practice
- preference for another item due to clinical requirements
- preference for another item due to any legitimate reason
- clinical reasons whereby the next generation of an item becomes the one of choice
- product standardisation
- design changes to equipment may dictate a need for a change in associated products to suit new specifications
- non-use of stocked items.

Annual usage reports are sent to all on site nurse managers and clinical nurse co-ordinators who review the reports and advise the stores if they need to alter or delete any items. Requests for making an item redundant can also be processed throughout the year. As part of good management of stock, these cases are to be referred to the Inventory Manager who will determine whether it is possible to absorb any stock back into the SA Health Distribution Centre stock for re-distribution to other sites, or to be used at the current site until stock has been consumed.

3.5.3 Unsaleable Portion of Stock Due to Unit of Measure Change

Items may have their unit of measure increased resulting in an unsaleable portion of the quantity of stock left on-hand.

This may require an adjustment to align the stock on hand to the number of units of issue for that particular product. The part quantity write-off adjustment for the unsaleable portion balances the system and the stock on hand.

3.5.4 Removal from the Stock Catalogue

Control and appropriate approval is required when making stock obsolete or redundant. Before an item is made obsolete or redundant and removed from the stock catalogue, all SA Health sites need to be duly consulted so the impact of removing items available for ordering are thoroughly assessed.

3.5.5 Consultation - Product Standardisation Sub-Committee

The Product Standardisation Sub-Committee, or LHN equivalent, has a role in liaising and consulting with specific clinical groups, where they exist, regarding the introduction of new products, product standardisation, product obsolescence, redundancy and removal. The Executive Officer of the Product Standardisation Sub-Committee, or LHN equivalent, will advise Procurement and Supply Chain Management (PSCM) of decisions made.

In advising PSCM that stock is to become obsolete or redundant, the Product Standardisation Sub-Committee will also advise the specific clinical group that has made the recommendation that, where possible (subject to supplier requirements) all existing stock, whether at individual health sites or at the SA Health Distribution Centre, is to be used up prior to commencing use of the new stock.

If an item is rendered obsolete or redundant through either the LHN Product Standardisation Committee (or its equivalent), or through SA Health's Product Standardisation Sub-Committee the health unit is to liaise with PSCM to ensure that existing stock, specifically stock that may have been purchased for them exclusively, is addressed and managed. This may require existing stock to be consumed before transitioning to new stock or for the existing stock levels held to be adjusted to compensate for reduced usage.

Failure of a health unit to engage with the Inventory Manager when making stock obsolete or redundant will render the health unit liable for any costs incurred by that decision.

3.5.6 Managing Obsolete and Redundant Stock

Once a decision is made by either the Product Standardisation Sub-Committee or a health unit Product Standardisation Committee equivalent to make an item obsolete, or it is decided that stock is redundant, the Inventory Manager will decide the best course of action regarding management of the physical items made obsolete, including:

- careful management of stock to ensure that stock adjustments resulting in write-off losses are kept to a minimum
- making efforts to run down stock held unless there is a clinical reason to immediately opt for a replacement item
- returning redundant stock, if possible
- selling obsolete and redundant stock, if possible
- reviewing and adjusting stock levels if item is used by other health services.

If the SA Health Distribution Centre has stored stocks of back-up quantities to ensure the item is always on hand and clinicians request an immediate changeover to a new item, and consequently the stock is not consumed, the health unit requesting the redundancy is to bear the cost of writing the stock off.

If there is provision in supply agreements or pricing agreements to return stock to the supplier, then this must be done and a credit obtained if this is the most viable option. For further information on returning stock refer to SA Health's returns processes documented on Oracle Assist.

In instances of manufacturers ceasing production or being unable to supply an item, there is an opportunity to run existing stocks down whilst sourcing a replacement product. These instances must be referred to the Manager, Purchasing, PSCM.

Once approval is granted to make a stock item obsolete or redundant and a decision is

made to write the stock off as opposed to running the stock down, it is removed from the inventory and is dealt with according to disposal guidelines.

3.6 Disposal of Physical Inventory that is Written Off

Once approval has been obtained to write-off inventory, an issue transaction is to be processed and the stock must be:

- physically removed from the warehouse location
- managed and disposed of
- removed from the stock catalogue (for obsolete and redundant stock).

Management and disposal of inventory items is to be in accordance with the principles, which promote ethical, accountable and transparent salvage and disposal, located in the [Salvage and Disposal Policy Directive](#).

3.7 Australian Accounting Standards

3.7.1 Loss of Service Potential Recognised as 'Expense'

In order to comply with Australian Accounting Standards, the value of any write-off of stock for loss of 'service potential' caused by stock being:

- lost or stolen
- damaged
- expired or about to expire
- obsolete or redundant

must be treated as an 'expense' in the period in which the write-off occurs.

3.7.2 Reversals – Reduction of Inventory 'Expense'

In order to comply with Australian Accounting Standards, the amount of any reversal of any stock write-off is (to be recognised as) a reduction in the amount of stock recognised as expense in the period in which the reversal occurs.

3.8 Approval and Processing of Inventory Write-Off and Write-Off Reversal Transactions

All inventory write-off transactions and inventory write-off reversal transactions are to be approved by the delegate whose position has authority to make inventory adjustments for the relevant amount/s as recorded in the Governance and Delegations System (GADS) or any other equivalent approved delegations of authority record.

Inventory write-offs are to be approved using an Account Alias Write-Off form which records relevant details of the inventory write-off transaction/s. 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 must not be involved in the counting of inventory related to that particular approval.

OCS inventory write-off transactions and inventory write-off reversal transactions must be processed using the Account Alias or Miscellaneous 'Issue' and 'Receipt' function within the Warehouse Management System and posted to the SA Health Distribution Centre respective dedicated general ledger account.

Processing of inventory write off transactions are to be undertaken in accordance with the

Cycle Count & Account Alias Process.

3.9 Records Management

All write-offs are required to be fully documented using appropriate forms which record the write-off transactions 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 write-offs
- reports and associated actions
- approvals to process inventory write-offs
- processing of inventory write-offs.

3.10 Exemption

All parties in SA Health are to comply with the Inventory Write-Off Policy.

An exemption to any aspect of the SA Health Inventory Write-Off Policy can only be sought via written request to the Chief Procurement Officer, SA Health. 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 write-offs
- internal auditing processes
- reporting requirements of the policy.

4.2 Risk Management

In summary, the risks associated with performing inventory write-offs are mitigated by the policy requiring relevant staff to ensure that:

- inventory write-offs are approved by an appropriate delegate with the authority titled Inventory adjustment, including re-valuation.
- all inventory write-offs 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

Financial Accounting reconciles monthly stock on hand reports from all sites to the general ledger. Additional reports will be provided upon request. These reports will enable independent review of inventory and inventory adjustment transactions by financial accounting staff as required.

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.

5. National Safety and Quality Health Service Standards

N/A

6. Definitions

N/A

7. Associated Policy Directives / Policy Guidelines and Resources

SA Health

[Inventory Adjustment Policy Directive](#)

[Inventory Stocktake Policy Directive](#)

[Salvage and Disposal 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](#)

[Record a Cycle Count using MSCA](#)

[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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23/12/2016	V2.0	Portfolio Executive	Policy amendments to reflect post OPS deployment; incorporate audit requirements and business practices (4.3 & 4.5.4); and define scope of inventory stock
06/05/2016	V1.1	Principal Policy and Compliance Officer	Fixed links
24/04/2014	V1.0	Portfolio Executive	Original version