

Part: **Public Money and Property**  
 Section: **Property**  
 Subsection: **Control of Property**  
 Policy: **Management of Inventories**

Number: **3805**  
 Date: **2020-12-15**  
 Page: **1 of 3**

## Management of Inventories

**Objective** *The objective is to outline internal controls to ensure that inventory is safeguarded and managed efficiently and effectively.*

**Authority** *The Financial Administration Act, 1993, clause 5(a) and subsection 10(2).*

**Applicability** This policy applies to the General Revenue Fund (GRF), and special purpose funds and trust money that are administered by ministries. See [Appendix C Public Money](#).

**Definitions** **Inventories** represent items that are purchased or produced and are not immediately consumed. They are recorded as an asset until they are issued for consumption or sale, at which time they are expensed. There are two main types of inventories: Inventories Held for Consumption or Use and Inventories Held for Resale.

**Inventories Held for Consumption or Use** are non-financial assets that will be used or consumed in the normal course of operations. Because the primary purpose of a government's operations is to provide services, the future economic benefit of inventories held for consumption or use is embodied in their capacity to render service that furthers the government's objectives. They are not intended for sale in the ordinary course of operations.

**Inventories Held for Resale** are financial assets that will be sold or used to produce a product that will be sold in the ordinary course of operations.

**Treasury Board Policy** .01 Ministries are responsible to ensure the following:

- Optimum inventory levels are maintained.
- Appropriate inventory records are maintained to meet reporting and internal control requirements.
- Adequate control and physical security measures are taken to prevent material loss of inventory due to theft, damage or obsolescence.
- Periodic comparison of physical quantities to inventory records occurs and corrective action is taken if material differences or irregularities are detected.

Part: **Public Money and Property**  
 Section: **Property**  
 Subsection: **Control of Property**  
 Policy: **Management of Inventories**

Number: **3805**  
 Date: **2020-12-15**  
 Page: **2 of 3**

- Appropriate Quantity** .02 In determining optimum inventory levels, the following holding costs should be taken into consideration:
- the cost to the Government of capital used to acquire the inventory;
  - storage costs, including warehousing costs;
  - inventory shrinkage costs, including the cost of spoilage of perishable goods and loss of value due to obsolescence;
  - any fixed cost associated with placing an order to acquire inventory; and
  - other relevant costs.
- Physical Security** .03 Ministries should implement physical security measures to safeguard inventory from risks of theft and damage. Measures selected should take into account the nature, quantity and value of inventory and the costs to implement them.
- Provincial Comptroller Directives**
- Inventory Levels** .04 Ministries should employ a suitable analytical technique to determine the optimum inventory levels to maintain.
- .05 When inventories are required for emergency use or the usage rate is unpredictable, ministries may maintain suitable safety stocks of inventory.
- Inventory Records Required** .06 Ministries and revolving fund must maintain records to safeguard inventory and to meet the requirements set out in the [Accounting Manual Section 1310 Inventories Held for Consumption](#) . Where inventories are excluded from this policy or are below the minimum thresholds, ministries should ensure sufficient records are kept to meet reporting needs and to mitigate risks of theft or other loss.
- Internal Controls – Ministry** .07 Ministries are to establish necessary procedures and controls to ensure the safeguarding and accurate recording of inventory to meet the requirements set out in the Accounting Manual Section 1310 Inventories Held for Consumption.

Part:	<b>Public Money and Property</b>	Number:	<b>3805</b>
Section:	<b>Property</b>	Date:	<b>2020-12-15</b>
Subsection:	<b>Control of Property</b>	Page:	<b>3 of 3</b>
Policy:	<b>Management of Inventories</b>		

.08 Ministries should ensure inventory information is reported at least annually to responsible management and adequate explanations obtained for variances of actual levels and amounts with budgets and prior periods.

**References**

[3525 Receipt of Donations](#)

[3800 Control of Tangible Capital Assets and Inventory](#)

[Accounting Manual, Section 1310 Inventories Held for Consumption](#)

[Accounting Manual, Appendix A General Revenue Fund Year-end Procedures and Schedules](#)