CASTEL MALAWI LTD	PROCEDURE FOR STOCK CONTROL AND STOCK COUNT Doc No: CM-FIN-21	Section: Finance-Controlling Revision No: 00 Effective Date: 8 June 2021
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1. PURPOSE

Ensure that stock validation in Navision accurately reflects the physical quantity which was counted on the ground.

Ensure that stock take is carried out in the most effective & timely manner to mitigate stock losses which can emanate from theft, un-booked transfer receipts, unprocessed purchase receipts and detect third matter inventory where applicable.

2. SCOPE

The Procedure underpins the role of the Stock Analyst within stock control process that result into stock location validation in Navision.

The Procedure further addresses measures within stock controlling that helps to substantiate validated quantities in Navision with actual quantities on the ground.

The Procedure applies to **ALL** stock items in **ALL** stock locations of CMBL and SOBO (physical & system).

3. STOCK RECONCILIATION AND STOCK VALIDATION

3.1 STOCK RECONCILIATION

As part of the daily operations, physical stock counts and stock reconciliations must be performed according to the below table in **ALL** locations.

Item category	Responsibility	Validation Frequency
Finished Goods (FG)	Warehouse	Daily (Monday-Friday)
Empty Containers (EG)	Warehouse	Daily (Monday-Friday)
Raws, Auxiliary & packs (RM, AM, PM)	Stores & Production	Weekly
Utilities	Utilities	Weekly
POS	Marketing	Monthly
Pallets	ALL	See above

Regardless of the above frequency, it is required, for **ALL** the locations, to maintain a daily stock reconciliation with a clear audit trail and real time transactions, even though the location is not formally "validated" in Navision.

3.2 STOCK VALIDATION

i. Stock take paper sheets must be **FILLED** and **SIGNED** by each location manager & supervisor (if applicable) who counted stock. Where there is involvement of an independent counter from Finance, the counter must sign on the sheet as well.

   A copy of the Stock take sheet must be submitted to the Stock Analyst, the other one must be retained by the stockholder.

ii. After ascertaining that all stock movements prior to the count have been captured in Navision, the Stock Analyst:

   - Generates a Physical Adjustment Journal in Navision and compares the physical quantities on the Stock-take sheet against the Physical quantities in the Navision Journal calculated.

   - Produces a Preliminary Stock Variance report to the stock location stakeholders and finally validates the stock location by posting the calculated Physical Adjustment Journal after approval from supervisor.

iii. In case of variances after comparisons, the Stock Analyst must follow up the stock movements through Navision item ledger entries vs. physical movements to the extent of drilling down to the root cause and **RECONCILES** with the Stock-Sheet presented. This reconciliation must be **FORMALIZED**.

   If the discrepancy is not solved, the Stock Analyst must go on the ground with the location supervisor/manager and **RECOUNT** physically the items showing a variance, to ascertain that quantity on the ground really tallies with the count sheet.

iv. In case of depots, once preliminary stock variances are analysed and eventually agreed by Depot Manager, the Depot Manager sends by email a report of the preliminary Stock Variance (Test Report) to the Stock Analyst for revision and final validation in Navision.

   Subjects to all parameters checking out, the Stock Analyst validates the stock location by posting the calculated Physical Adjustment Journal after approval from Supervisor.

   In case of a proven variance (i.e. validated on the ground by the Stock Analyst), the Stock Analyst Supervisor must inquire with the location manager in order to try to solve the variance before posting. If unsuccessful, the team validates the stock with the actual variance.

4. STOCK CONTROLLING MEASURES

Controlling must deploy several measures as an insurance function to ascertain that validated quantities conforms to the reality.

4.1 DAILY STOCK TAKE

DAILY (Monday to Friday), a Stock Analyst must join the shift change over and **COUNT** independently the WFP FG & EG locations. He then needs to ensure the quantity counted is properly reflected in Navision and approved by Supervisor.

4.2 SURPRISE STOCK TAKE

i. Surprise stock take can be performed by an independent counter in Finance (ideally during shift change over) at any given time, without any notice to the location manager.

ii. The independent counter joins the daily inventory count as a control figure and makes sure the quantities which are finally presented for validation on that day checks out when compared to the Stock take Sheet duly endorsed by him.

iii. After each stock take exercise, independent counter must fill a Stock take questionnaire devised by the Supply Chain Stock Controller. The Questionnaire outlines how the stock take exercise was performed i.e. challenges faced if any. Both parties endorse the questionnaire, before its remitted to the Supply Chain Stock Controller for filling.

4.3 RECONCILING QUANTITIES VALIDATED WITH PHYSICAL STOCK SHEET

i. Supply Chain Stock Controller to maintain a file on the controlling server weekly showing days which he reconciled the Physical Stock Sheet to Navision captured physical Adjustment journal entries. This file must be sent to the Head of Controlling for review on a weekly basis.

ii. The above exercise must be performed for the top five FG|EG stock locations i.e. Hen-red, Academy, WFP, CMBL and Lilongwe Main.

iii. Monthly, the Supply Chain Stock Controller reconciles all independent counters closing Physical Stock-Sheet to Navision Physical Inventory Ledger entries validation for FG & EG. This reconciliation must be printed and signed by Head of Controlling as part of the month-end procedures.

4.4 STOCK TAKE SHEET AND QUESTIONNAIRE FILING

i. Supply Chain Stock Controller is in charge of updating the Stock take Sheet by the change in items.

ii. Supply Chain Stock Controller maintains a file of all Stock take sheets duly received and files the questionnaires. All questionnaires must be send to head of Controlling for review and endorsement as part of the month-end procedures.

iii. A special file to be produced to retain all Stock-Sheets in respect of independent counts. This assist as cut-off point in terms of follow up when faced with anomalies.

4.5 PLANNING THE MONTH-END CLOSING

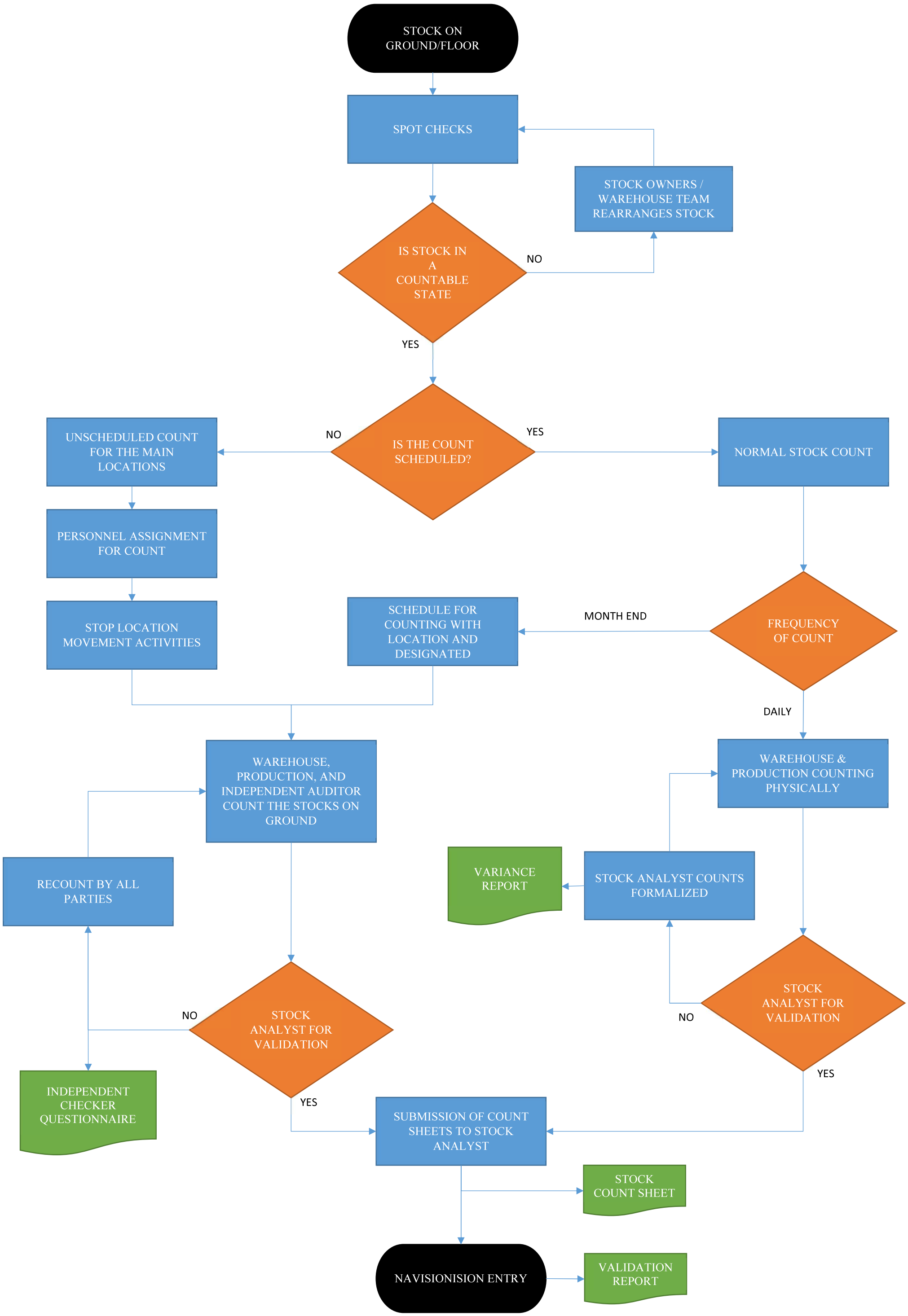
i. Supply Chain Stock Controller in liaison with the Stakeholders plans the monthly stock take exercise.

ii. Prior to the main counts by independent counters Stock Analysts performs several spot locations checks.

iii. Spot checks ensure that inventory awaiting count is well arranged, if not the Location-Manager is alerted in advance to reorganise the inventory so that when the time arrives for stock take, inventory should be in a countable state.

iv. Stock take staff allocation schedule is circulated names of counters and the stockholders plus the dates and time of the count.

v. For the month-end count schedule, the Supply Chain Stock Controller must assign 2 independent teams to count (and confront their count) the top five locations for FG & EG, in order to secure the reliability of the counts on those sensitive locations.


STOCK ON GROUND/FLOOR
SPOT CHECKS
STOCK OWNERS / WAREHOUSE TEAM REARRANGES STOCK
IS STOCK IN A COUNTABLE STATE
NO
YES
IS THE COUNT SCHEDULED?
NO
YES
UNSCHEDULED COUNT FOR THE MAIN LOCATIONS
NORMAL STOCK COUNT
PERSONNEL ASSIGNMENT FOR COUNT
STOP LOCATION MOVEMENT ACTIVITIES
SCHEDULE FOR COUNTING WITH LOCATION AND DESIGNATED
MONTH END
FREQUENCY OF COUNT
DAILY
WAREHOUSE, PRODUCTION, AND INDEPENDENT AUDITOR COUNT THE STOCKS ON GROUND
WAREHOUSE & PRODUCTION COUNTING PHYSICALLY
VARIANCE REPORT
STOCK ANALYST COUNTS FORMALIZED
RECOUNT BY ALL PARTIES
STOCK ANALYST FOR VALIDATION
NO
STOCK ANALYST FOR VALIDATION
NO
YES
INDEPENDENT CHECKER QUESTIONNAIRE
YES
SUBMISSION OF COUNT SHEETS TO STOCK ANALYST
STOCK COUNT SHEET
NAVISIONISION ENTRY
VALIDATION REPORT