Inventory Management

Criteria for Recognition of Inventories

1. In general, the determination of items to be included in the inventories is based on the ownership of the inventories, i.e. the legal title to the inventories. However, the notion of “control” is central to UNDP’s inventories policy in order to recognize inventories as assets. UNDP must examine the substance of the transaction, rather than the form of the agreement with other parties, and ensure that the control is demonstrated before recognizing and reporting inventories as assets. The physical location or custody of the inventories are factors to consider in determining control (i.e. whether they are stored on UNDP premises, or managed by UNDP personnel), but these factors are not by themselves sufficient criteria to identify who controls the inventories. UNDP must take into account the risks and rewards of ownership (including the agreement with, or expectation of, donors) to determine whether the inventories are to be recognized as assets in UNDP’s accounts. UNDP must recognize the inventories if UNDP:

   a. Controls access to and distribution of the inventory items;
   b. Administers a programme requiring distribution of the inventory items (as opposed to situations where the inventory items are purchased solely for immediate shipment to a local government / implementing partner).
   c. Bears the risks of loss, theft, damage, spoilage, etc.

2. Supplies (e.g. office supplies, stationery, etc.) are items that purchased and consumed for administrative use which are used to assist daily operation of COs rather than for direct implementation of a programme. Supplies are generally expensed upon acquisition and are immaterial in value.

3. Various types of items held by UNDP COs qualify as inventories. The following table may be used as guideline by the COs to determine what qualifies as inventories, and therefore requires quarterly physical counts, valuation and reporting:

<table>
<thead>
<tr>
<th>Examples for inventories</th>
<th>Examples for supplies</th>
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<tbody>
<tr>
<td>1. Global Fund medical supplies / equipment</td>
<td>Medical supplies procured for UN dispensary</td>
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<tr>
<td>2. Crisis supplies / equipment</td>
<td>Regular office stationery</td>
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<tr>
<td>3. Electoral supplies / equipment</td>
<td>Machinery spare parts stored for UNDP daily operations</td>
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<td>4. Items prepositioned for emergencies by a programme under its mandate</td>
<td>Items prepositioned for emergencies in UNDP office</td>
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<tr>
<td>5. Fuel held for distribution to other UN agencies</td>
<td>Fuel held for UNDP’s office usage and vehicles</td>
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<tr>
<td>6. Publications held for sale or distribution to external parties</td>
<td>Publications (e.g. newspaper subscription) purchased for UNDP’s own use</td>
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4. The Assistant Administrator / Chief Procurement Officer (CPO) of the Bureau for Management Services (BMS) is responsible for all inventories acquired, controlled and managed by UNDP. The CPO may delegate his/her authority to acquire, control and manage inventories to each Resident Representative and Head of Out-Posted Headquarters’ Unit as may be appropriate in fulfilling the purposes of UNDP FRR.

5. Responsibility of Business Units (Out-posted HQ Units and COs)
   a. Acquire via E-requisition / PO / Receipt / AP voucher.
   b. Receive and inspect the inventories in compliance with PSO procurement guidelines.
   c. Safeguard and manage the distribution of the inventories to end users.
   d. Dispose of damaged or expired inventories according to the FRR.
   e. Compile and document inventory in notes and inventory out notes.
   f. Update stock cards based on daily movements.
   g. Reconcile and maintain inventory records.
   h. Perform physical inventory count on a periodic basis (at least quarterly).
   i. Investigate and record any adjustments (e.g. obsolescence, damage, theft, etc.) of inventories.
   j. Perform valuation of inventories at quarter end.
   k. Review and report the balance of inventory in transit on the quarterly inventory control reports.
   l. Ensure an inventory control report is prepared, reviewed, and certified for each project.
   m. Submit inventory control reports, which record inventory balance with both quantity and dollar value, at each quarter end to HQ Accounts Division via the DMS.

6. Responsibility of COs Resident Representatives
   i. Certify balance and value of inventories reported on the inventory control report(s).
   ii. Ensure timely submission of inventory control report(s) with inventory certification(s) to HQ Accounts.

7. Responsibility of HQ Accounts Division
   i. Review the accuracy of inventory control reports (submitted by COs) and ensure that balances are certified by RR.
   ii. Record an accounting journal entry to recognize the balance of inventories at quarter end.

8. In order to acquire inventory items, all COs are required to comply with UNDP procurement rules and obtain relevant approvals in line with Procurement Guidance established by Procurement Services Office (PSO). Once the relevant approvals are received, the transaction must be processed in Atlas through UNDP’s procurement catalogue.

   Please refer to POPP Raising Requisitions for detailed policies and procedures on procurement.

**Inventory in transit**
9. Inventory in transit is en-route goods purchased that are in the ownership of UNDP but in the possession of the carrier. The inventory in transit that is owned by UNDP (based on incoterms) must be recorded as inventories. Therefore, it is very important to determine the ownership of inventory items in transit based on respective incoterms.

10. For example, the term FOB stands for “free on board.” If goods are shipped FOB destination, the title of goods does not pass to UNDP until the carrier delivers the items; thus, UNDP should not recognize the inventory while in transit. If goods are shipped FOB shipping point, the title of such passes to UNDP when the carrier takes possession; therefore, UNDP shall recognize the inventory while in transit. If goods are shipped through FAS (free alongside) or CIF (cost, insurance, and freight), the party which bears the cost of loading and shipment is entitled to the legal title of the inventory while in transit.

Please refer to POPP on Management of Expenses for Receipt of Goods, Services, and Works for detailed incoterms.

- Guidelines for the Storage of Essential Medicines and Other Health Commodities issued by World Health Organization (WHO)
- Guidance on inventory acquisition / management by UNDP Procurement Support Office, HQ

11. UNDP Inventories policy requires qualified inventories to be recognized as assets until consumed or distributed. The balance of such inventories have to be physically counted, valued, recognized and reported as assets at the end of each reporting quarter.
Annex 1: Flowchart