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MINISTRY OF DEFENCE

# **JSP 886 DEFENCE LOGISTICS SUPPORT CHAIN MANUAL**

## **VOLUME 2 INVENTORY MANAGEMENT**

### **PART 6 FINANCIAL ACCOUNTING FOR INVENTORY**

VERSION RECORD		
Version Number	Version Date	Description
1.0	03 Jun 08	Original
1.1	10 Sep 09	Amendment to reflect organisational changes
1.2	09 Dec 09	Changes to details of Ownership and Points of Contact
1.3	23 Dec 11	Changes to reflect changes in terminology, processes & organisational structure. (All Changes in blue text and sidelined)
1.4	19 Jul 12	Reformat and amendment to <a href="#">JSP 886 Point of Contact</a>

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## **CHAPTER 1: INTRODUCTION TO FINANCIAL ACCOUNTING FOR INVENTORY**

### **PURPOSE**

1. This instruction sets out the policy, procedures and systems that Integrated Project Teams (PTs) need to have in place to provide accurate financial accounting information relating to all their assets and liabilities. Robust accounting data is essential to allow PTs to make informed management decisions and to achieve National Audit Office (NAO) 'True and Fair' opinion on the **Annual Report & Accounts (ARAC)**. This policy and procedures should be read in conjunction with the policy for Resource Accounting and Budgeting (RAB) set out in JSP472 (specifically Chapter 6 - Stock Accounting), and annexes thereto. It is intended to give both the financier and non-financier an understanding of the policy and procedures for accounting for inventory.
2. The DE&S Fin FA - Inventory Accounting Enabling Team (IAET), through the development and maintenance of inventory feeder and accounting collation systems provides Resource Accounting and Budgeting (RAB) compliant inventory management information systems and processes. These systems involve the management and validation by PTs of, Pricing, Government Furnished Equipment (GFE), other related supply systems and offline stockholding data integrity. The implementation of the DE&S Stock Accounting Collation System (DSACS) provides a consolidated inventory accounts posting feed to the General Ledger (GL) and Management Information (MI) for PTs through the reporting system - "Management Information for Stock Accounting" (MISA).
3. To support DSACS, this instruction sets out the policy and procedures on the roles and responsibilities, of both the IAT and the PTs, necessary to ensure the production of inventory accounting data.
4. Financial Accounting (FA) should not be confused with Materiel Accounting (MA). FA records the financial value of inventory and their consumption, whereas MA records inventory quantities, condition and transactions. Policy and procedures for MA is set out in JSP 886 Volume 4.
5. PTs have a duty to manage their inventory in an efficient and effective manner and the financial accounts will reflect day-to-day business of the PT and provide only one measure of the PT performance. The PT Inventory Plan will provide further evidence of the sound management of the Inventory whilst also providing supporting evidence to some of the values in the financial accounts. It is therefore also imperative the PT Inventory Plan is maintained and updated on a regular basis. [Chapter 3 Annex B](#) sets out some of the areas considered for assessment of the quality of the financial accounts in support of the Inventory Plan.

### **INVENTORY ACCOUNTING POLICY**

6. It is MOD policy that all PTs will accurately account for all inventories for which they are responsible for, whether it is held by the MOD or by Industry. PTs are to ensure that all transactions and balances are reported accurately and promptly in the financial accounts and that prices reflect pricing policy. The policy for accounting for MOD inventory is set out in [Chapter 2](#) and policy on accounting for GFE in [Chapter 3](#).

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## **SCOPE**

7. It is the responsibility of an Project Team Leader (PTL) to ensure the entire inventory in the ownership of the PT is accurately valued and accounted for throughout the financial year and at year-end as part of the ARAC. The following paragraphs set out the responsibilities of the PT and the support provided to inventory owners by DE&S Fin IAT to assist them to manage and optimise their inventory holdings.

## **DEFINITION**

8. Inventory, for the purpose of this instruction, is taken to comprise Capital Spares (CS), Guided Weapons Missiles and Bombs (GWMB) and Raw Materials and Consumables (RMC), including that held as GFE. The policy and procedures does not cover all other Fixed Assets (including Jigs, Tools and Test Equipment (JTTE) which are financially accounted for by DE&S Fin FA AMET

## **ROLE OF DE&S FIN INVENTORY ACCOUNTING TEAM**

9. The role of the DE&S Fin IAET is to enable PTs and other inventory owners to manage and optimise their inventory holdings. This includes:

- a. Provision of inventory accounting management information to inventory owners and Top Level Budget holder (TLB) finance staff to enable consistent production of ARAC, Inventory Management Plans, Equipment Support Plans and in-year Management.
- b. Support to PTs, other inventory holders and Front Line Commands (FLCs) in their discussions with TLB finance staff.
- c. Governance and assurance to DE&S and MOD Head Office in respect of policy and procedures in this instruction.

## **OWNERSHIP AND POINT OF CONTACT**

10. Deputy Head DE&S Fin FA is the sponsor of policy on Financial Accounting for Inventory. This policy has been endorsed on behalf of the Joint Support Chain Board (JSCB) and ratified by the Logistic Policy Working Group (LPWG).

- a. Enquiries about the interpretation or application of the policy and procedures in this document are to be addressed to:

**DES Fin FA IAET Customer Support**

Maple 1c #2125, MOD Abbey Wood, BRISTOL, BS34 8JH  
Tel: Mil: 9679 80607, Civ: 030679 80607

- b. Enquiries concerning the accessibility and presentation of this instruction should be addressed to:

**DESJSCSM-SCPol-JSP886 Editorial Team**

Cedar 1A, #3139, MOD Abbey Wood, BRISTOL, BS 34 8JH  
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## **GLOSSARY**

11. A glossary of Joint Support Chain terms is in JSP 886 Volume 1 Part 1A: Glossary.

## **LINKED PUBLICATIONS**

12. Further guidance is contained within the following publications:

- a. [JSP 472](#): MOD Resource Accounting Policy Manual.
- b. [JSP 886 Volume 2, Part 2](#): PT Inventory Planning.
- c. [JSP 886 Volume 2 Part 4](#): NATO Codification in the UK.
- d. [JSP 886 Volume 3 Part 2](#): Contractor Logistic Support.
- e. [JSP 886 Volume 4](#): Materiel Accounting.
- f. [Support Solutions Envelope](#) (SSE).
- g. [DEFCON 694](#): Accounting for Property of the Authority.

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## **CHAPTER 2: FINANCIAL ACCOUNTING FOR CAPITAL SPARES, GUIDED WEAPONS MISSILES AND BOMBS AND RAW MATERIALS AND CONSUMABLES**

### **DEFENCE EQUIPMENT AND SUPPORT (DE&S) - STOCK ACCOUNTING COLLATION SYSTEM**

1. The DE&S Stock Accounting Collation System (DSACS) consist of three elements:
  - a. Integrated Stock Ownership and Pricing System (ISOPS).
  - b. DSACS Posting Creation Application (DPCA).
  - c. Management Information for Stock Accounting (MISA).
2. A process map for DSACS, demonstrating the links with Logs IS, is at [Chapter 3 Paragraph 2](#).

#### **INTEGRATED STOCK OWNERSHIP AND PRICING SYSTEM (ISOPS)**

3. ISOPS is a web-based application that holds all of the RAB standing data required for the creation of financial account postings. The functionality is split between that required for Pricing and that for Item Data Records (IDR) required to support financial accounting for inventory. The responsibility for maintaining the standing data on each NATO Stock Number (NSN) lies with the financial owning Project Team (PT). ISOPS will be updated from data supplied by PTs. The system will maintain an Audit trail of all such changes together with a record of the source of the data.

4. Separate access rights are required to access financial accounting IDR and Pricing data in ISOPS. These will be issued by DBSO ADMT.

#### **Item Data Records to Support Financial Accounting for Inventory**

5. Each NSN has the following IDR items directly related to it, which support financial accounting:

6. In addition to the IDR above there are a number of other attributes to the NSNs, and tables used by DPCA, that users are able to view. These are detailed in the ISOPS User Guide.

#### **Pricing**

7. The position and importance of pricing in inventory management must not be underestimated as it forms a major cornerstone of MOD inventory accounts and subsequent financial and materiel management of MOD business. The inventory value held on the MOD account is derived from the recording of one "new manufacture" price for each NSN.

8. The validity of the price data and supporting audit trail on the individual inventory systems is the responsibility of the PT / inventory owner as this data represents the only record used to value inventory and transactions in the MOD accounts.

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9. The single pricing function is held within ISOPS. ISOPS provides enhanced functionality to empower PTs with inventory holdings on CRISP, BODMS and SCCS to undertake their own price updates, bringing them in line with SS3 users.

**Figure 1: Item Data Record descriptions**

Item Data Record	Comments
Owning PT	ISOPS has adopted an Ownership Code in line with SCM policy of 'one item, one owner'. Each NSN will be allocated a Financial Owner on whose SoFP the whole of value of stock will sit. Where more than one PT has an interest in an item Ownership will be determined in accordance with JSP 886 Vol 2 Part 3: Single Ownership of items of supply in the Defence Inventory.
Stock Category	Within the financial accounting system (DSACS), Stock category is the categorisation of inventory between Capital Spares and Raw Material & Consumable items (RMC). Categories are: A = Capital Spare, F = RMC. (Note; these categories relate to the Resource account code used in the financial accounts and will differ from, but relate to the codes used in supply systems) The distinction is that Capital Spares are not consumed or used to destruction on the basis that they can be repaired and so become 'rotatable items'. These definitions although closely linked to the Material Accounting classifications of P, L & C (Permanent, Limited and Consumable) are not exact matches. All 'C' items will be RMC category 'F', but P&L items may be either category 'F' or 'A' depending on their ability to be repaired.
Stock Group	Stock Groups are as follows: B = Guided Weapons, Missiles and Bombs (Sophisticated) - Complete and Major components. C = Armament Stores (Non-Sophisticated). D = General Stores. E = Medical & Veterinary stores. F = Engineering and technical. G = Bulk or Fuel lubricants. J = Strategic Weapons systems. L = Guided Weapons, Missiles and bombs – Non-major components. M = Exploding Munitions P = Clothing and textiles. X = Error conditions – no entry on initial load.
In Service Date (ISD)	Used to calculate depreciation for Capital Spares.
Out of Service Date (OSD)	Used to calculate depreciation for Capital Spares. For the Air system the OSD is provided through the use of the TMA code

10. DBSO ADMT will:

- a. Work closely with all PTs to ensure they comply with pricing policy and staff system related pricing queries.
- b. Act as DE&S pricing focal point for contact with the National Audit Office (NAO).
- c. Co-ordinate price validation exercises to maintain the integrity of the PT accounts and to provide assurance to Chief of Defence Materiel (CDM) and the NAO.
- d. Maintain the links between ISOPS and the Supply Systems.
- e. Undertake volumetric price updates.

11. SS3 and SCS(S) users are not exposed to the pricing element of ISOPS, as there is an automated import facility.

12. The MOD pricing policy is at [Chapter 3 Annex A](#).

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13. The DBSO ADMT Pricing Team or DE&S Fin FA-IAET will provide training in the use of ISOPS DSACS Posting Creation Application (DPCA).

14. DPCA is the system that takes all codified transactions and balances from the Log IS and, using the data supplied from ISOPS, makes the necessary RAB account postings that are fed to the General Ledger (GL) through the QMG FA feed. The GL data is available through the use of COGNOS reporting.

#### **MANAGEMENT INFORMATION FOR STOCK ACCOUNTING (MISA)**

15. MISA is a web-based application available to all inventory owning PTs to retrieve financial accounting data relating to their Inventory and to Front Line Commands (FLCs) for retrieval of consumption data. MISA data is reconciled to the General Ledger (GL) data available through 'Oracle Financial'.

16. DBS ADMT Help Desk will supply MISA 'Logons' and access to the MISA User Guide.

17. MISA, based on COGNOS Version 8, is set up to allow users to access a set of Standard Report Suites; it also has report building functionality. DE&S Fin FA – IAET will provide 'local' training to new users of the system.

18. The Standard Report (SR) suite has been designed to ensure PTs can access key inventory financial accounting data to enable them to meet the in-year reporting requirements. MISA provides an analysis of material inventory movements on a monthly basis that can be used to inform the PT Management Validation process, with certain reports having the facility to be interrogated at NSN level. A list of MISA Standard Reports<sup>1</sup> is at Figure 2.

**Figure 2: MISA Standard Reports**

Report No.	Title	Description
SR 1	Ownership	This Standard report shows the commodities allocated to an PT (in line with SCM policy of one item, one owner).
SR 1a	Ownership Line Item Level	This Standard report shows the commodities allocated to an PT (in line with SCM policy of one item, one owner). At NSN Level
SR 2	General Ledger – Physical Stock Balances	This report shows the PTs inventory holdings by Supply System e.g. CRISP.
SR 3	Monthly Inventory Analysis	The inventory analysis contained in the report can be lifted directly into the Inventory accounting audit pack.
SR 4/5	Bank Statement – Gross or depreciation profile	Movements across inventory events.
SR 6	Purchases DPCA only	Provides an analysis of the inventory purchases received on to MoD main supply systems
SR 20	Double Entry Gross Values	Details double entry inventory movements across inventory events within SoFP.
SR 21	Double Entry Depreciation and Backlog values	Details double entry inventory movements across inventory events within SoFP.
SR 20/21	Double Entry to SoCNE	Details double entry inventory movements across inventory events within SoCNE.
SR 22a	Consumption Outside DE&S	Details lower level information on stock consuming organisations outside DE&S, principally Front Line Commands.
SR 22b	Consumption within DE&S	Details lower level information on stock consumption events, on PK* Resource Accounting Codes
SR 22c	Consumption within DE&S	Details lower level information on stock consumption events, on MLD Resource Accounting Codes

<sup>1</sup> Standard reports may be added as and when a need is identified.

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Report No.	Title	Description
SR 22d	Consumption within DE&S	Details lower level information on stock consumption events by other PTs within DE&S

### **Inventory Accounting Audit Pack Process**

19. All PTs have been mandated to have an inventory audit pack process in place; this process is designed to ensure PTs monitor and collate audit evidence in support of material inventory movements on a monthly basis.

20. The Inventory accounting audit pack will deliver an element of the PT Management Validation process, provide narrative / evidence to support Team Leader reviews of Statements of Financial Position (TLRSFPs) and provide PTs with a robust audit trail for inventory issues; additionally, if required, for scrutiny by the National Audit Office (NAO). The Inventory Accounting Audit Pack contains a logical order of evidence to support the PTs inventory movements and will need to include the following information designed to ensure it meets NAO / QAR Scrutiny.

**Figure 3: Inventory Accounting Audit pack**

Item	Standard Report	PT Action
Index	N / A	Template provided by the DE&S Fin FA – IAET Customer Support Team
Inventory Plan	N / A	The Inventory Plan will provide a good overview of the PTs business and should be included in the Inventory Accounting Audit Pack.
Audit Pack Checklist	N / A	This checklist is a traffic light system that starts red and should be green by the end of the Financial Year.
	SR 1	PT will need to validate this report no less than quarterly and for each update of the Audit Pack as required.
	SR 2	Complete sense checks of the stock balance across supply systems on no less than a quarterly basis and for each update of the Audit Pack as required.
Issue Log	SR 4	Check Report on a monthly basis, pick out material movements that require further investigation and enter them on the issue log.
Issue Evidence	SR 4 Drill Down	Drill Down on material movements identified on the Issue log on a monthly basis, investigate and close issue. The evidence compiled during the investigation should be stored and signed off by an independent viewer within the PT before closing the item on the issue log.
Bank Statement - Depreciation profile	SR 5	Complete a sense check on no less than a quarterly basis to ensure the depreciation values look in proportion to the 'lifing' dates recorded in SR1
Double Entry Profile	SR 20	Complete sense checks on no less than a quarterly basis.

21. MISA training will also contain an overview of the Inventory Accounting Audit Pack Process. Mandated templates detailed in the above table are available from the DE&S Fin FA – IAT Customer Support Team.

22. For a PT to effectively complete the 'Inventory Accounting Audit Pack' it is imperative that Finance and Inventory Management staffs work together to ensure business reasons for inventory movements are fully understood. Either area can take the lead on completing the pack but knowledge sharing is essential.

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## **FINANCIAL ACCOUNTING**

### **Role of DE&S Fin FA – Inventory Accounting Enabling Team (IAET)**

23. DE&S Fin FA – IAT provides support to the TLB finance staff to enable consistent production of the DE&S input to the MOD **Annual Report & Accounts (ARAC)**. This includes providing:

- a. Summary stock movement information.
- b. Supporting commentary on SoFP values and operating costs.
- c. A log of issues / risks to the stock elements of the accounts.
- d. A consolidated reconciliation between the source supply systems and the financial general ledger.
- e. A focal point for liaison with the NAO.

### **Consolidated Data Review and Analysis**

24. In meeting the above requirements DE&S Fin FA – IAET undertakes a monthly analysis and review process of the general ledger stock balances and transactions. General ledger data relating to Guided Weapons Missiles and Bombs (GWMB), Capital Spares (CS) and Raw Materials and Consumables (RMC) is analysed and a variance reporting pack produced for review within IAET, in conjunction with other TLB finance staff. Significant variances are investigated to identify if the cause is system related, and under action, or a genuine business related movement.

25. Details of the variances together with supporting statements to explain the rationale behind the movements are recorded in the DE&S Fin FA – IAET commentary. This document is updated at the end of each accounting period to reflect the most current financial position within the DE&S stock accounts. The document is then circulated to key DE&S Fin FA – IAET personnel who review the results and take investigative action on any suspect balances. The findings are recorded on the commentary document and consolidated into the overall DE&S Fin FA – IAET commentary. A copy of this is used to form the basis of DE&S HQ monthly accounts review meeting.

### **Departmental Resource Account Preparation**

26. Formal ARAC submissions are made by the TLB at Accounting Periods (AP) 06, 09 and 12 and to support these, DE&S Fin FA – IAET undertakes the following tasks.

- a. A detailed movement analysis is provided at a consolidated level for GWMB, CS and RMC. A commentary on these movements in-year is also prepared for use by the TLB to support the accounts submission.
- b. A reconciliation process is undertaken to demonstrate that the gross value of material held in the source supply systems is represented correctly within the general ledger. This provides an important overall assurance to the materiality of the gross values within the accounts.
- c. An issues log is maintained in order to monitor progress on the issues raised by the NAO during their previous audit and highlight any new issues arising in year.

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d. The balances on the revaluation reserves that have been created by price changes on GWMB, CS and RMC are monitored. An annual assessment is made of the realisation of the reserve as a result of stock movements and adjustments made.

## **Focal Point for NAO Activities**

27. DE&S Fin FA – IAET work directly with the NAO, on behalf of the TLB, to provide the auditors with consolidated data on GWMB, capital spares, raw materials and consumables. The internal controls managed by IAET and SCM-SCO, in respect of Pricing, Stocktaking, GFE and the collation systems are reviewed by the NAO and a log of issues maintained.

## **Journal Templates**

28. The requirement for Basic Level Budget holders (BLBs) to take ownership of their accounts has led to a dramatic increase in the number of manual journals raised. However, shortcuts in writing journals and the failure to recognise fully the stock movements in the SoFP have resulted in significant erroneous postings.

29. To help rectify this problem, the standard journal template has been modified to include a range of stock accounting rules which will ensure correct and logical accounting posting procedures are followed and that Statement of Financial Position (SoFP) codes are used in all stock journal entries. This will assist BLBs in understanding the PT SoFP holdings of Capital spares and consumables, improve the production time of accurate Management Information and aid the completion of accurate accounts under the requirement for faster closing.

30. The template will only accept logical, equal and opposite credits and debits. Where a posting error occurs e.g. Statement of Comprehensive Net Expenditure (SoCNE) to SoCNE posting; bypassing the SoFP, the system will allocate a red '0' in the Description field (Excel column O) with a message stating a posting error has occurred (Excel column Q).

**Figure 4: Journal Template**

31. DBS financial accounting team will reject any journal with a '0' in the Description field for corrective action, which is to be undertaken by the respective BLB. All BLBs should be aware that the time taken to produce their Management Information is influenced by such activities.

RMC Financial Provisions

32. RMC financial provisions are to be used to 'write down' the gross value of RMC stock to a level that represents its value to the MOD. Generally, this will be required when a quantity of stock is deemed to be in excess.

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33. PTs and other inventory holders are to review stocks of all RMC items, at least annually, to ensure they are being held for valid business reasons. The results of the review are to be recorded in the Inventory Management Plan (JSP886 Volume 2, Part 2: Inventory Planning). Where there is no valid reason for holding the stock level, the excess quantities are to be marked for disposal and a 100% financial provision created by the PT in their accounts in accordance with Director Financial and Management Accounting (DFMA) letter DLOHQ / FMSG.DLFM / 114.05 dated 30 Nov 05.

34. Once RMC Stocks have been marked for disposal positive steps must be taken to alert the Disposal Sales Authority (DSA) and a disposal plan developed. This plan must be monitored and progress reported in the Inventory Management Plan.

35. Further guidance can be obtained from the DE&S Fin FA – IAET Help Desk.

### **Accrual Accounts**

36. RAC GBA040 is the stock accrual account and its balance should reflect timing differences between stock items being bought on charge via the stock systems and the actual bill payment of the items via the Shared Service Centre (SSC) at Liverpool.

37. Stock systems will debit the relevant stock code and credit RAC GBA040 when the item is added to the inventory supply system. Providing the contract has been correctly set up and coded, the invoice payment processed by SSC Purchase to Payment (P2P) will result in a credit to RAC GBA040 and a debit effectively to the cash Feeder Control Account. On a monthly basis, RAC GBA040 should be monitored and validated by the PT to confirm that it reflects the genuine and accurate accrual value of stock delivered not yet paid for.

38. At year-end, all balances on RAC GBA040 must be cleared to zero and PTs are required to take action to achieve this position. Any unadjusted balances will be assumed to relate to stock accruals and as a last resort;

- a. Mismatches due to purchase price variations should be cleared to PKR000.
- b. Incorrect postings should be transferred to the correct RAC and BLB or ‘written-off’ to RAC MKB000 or PLA001.

### **Revaluations**

39. As part of a wider TLB initiative all stock (GWMB / CS / RMC) related Revaluation Reserve balances and transactions (excluding Nuclear) are now managed centrally by the IAET on BLB code 6450.

- a. DE&S Non Current Asset (platform) balances and transactions are managed separately on the DK0 Management Grouping code. These are not inventory balances and the register is maintained by the DBS

40. The DSACS system generates in-year revaluation postings for inventory on a single consistent basis and will be developed to establish postings for the release of reserves for inventory movements. The IAET will continue to initiate adjustments until an automated solution is operating satisfactorily.

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## **ACCOUNTING FOR NON-CODIFIED ITEMS**

41. All inventory entering the Joint Supply Chain is required to be codified (JSP 886 Volume 2 Part 4 – NATO Codification in the UK) and the stock collation procedures above provide for the financial accounting of all codified items of inventory held on MOD main supply collation systems. Additionally, FLCs must account for Non-Codified inventory not purchased through a PT, including those procured through P2P, catalogues or other e-procurement routes.

42. PTs are responsible for establishing arrangements to account for any non-codified inventory they manage. Whilst it is acknowledged that it may be necessary to acquire inventory in advance of codification, such items must be held, pending codification, on a MOD approved stock system and the value shown in the MOD financial accounts. For the avoidance of doubt, all items used in the operation, repair or modification of MOD owned equipment (including spares, whether repairable or consumable and tools) must be codified as soon as possible. Timescales for the codification process are included in JSP 886 Volume 2 Part 4.

43. It is acknowledged that custodians of PT owned inventory may, in the event of system difficulties or when receiving non-codified items, be required to bring those items on account using approved stock systems primarily designed for consumable items ‘Not in Vocabulary (NIV)’. In such instances care is taken to ensure all relevant details, such as DMC / NSC / NC / IIN / Part No and Description are accurately recorded on the system used. Action is to be taken, in conjunction with the relevant supporting authority (PT) to transfer the items to a main MOD stock system at the earliest opportunity and in any case within 3 months. In essence, non-codified and / or ‘off-line’ systems in use must be restricted to non-codified consumables locally purchased using FLC unit funds.

## **INVENTORY ACCOUNTING UNDER CONTRACTOR LOGISTICS SUPPORT ARRANGEMENTS**

44. Contractor Logistics Support (CLS) arrangements (including Contracting for Availability (CfA) and Contracting for Capability (CfC)) in respect of inventory holdings are often very complex and PTs need to take into consideration the requirements for financial accounting at an early stage in the negotiations. PT Leaders (PTL) are responsible for ensuring that all proposals clearly identify the accounting arrangements to ensure robust and accurate accounts can continue to be prepared. This is particularly critical where MOD owned inventory is to be held on a non-MOD approved inventory system. The PT is responsible for ensuring the contractor maintains the data, and movements in inventory values are reported monthly in the MOD accounts.

45. The Support Solutions Envelope (SSE) process requires all proposed support arrangements to be assessed against specific policy criteria. SSE Key Support Area (KSA) 3 sets out the criteria to be considered in respect of Ownership, Materiel and Financial Accounting for Inventory under CLS. This Governing Policy (GP) requires DE&S Fin FA – IAET, together with the Partnering Support Group (PSG) and DE&S Fin FA Hd, to be consulted and their agreement sought to CLS arrangements proposals.

46. Details of Stock Accounting and Management requirements under CLS are given at [Chapter 3](#) to this instruction. Full guidance on all aspects of CLS can be found in Chapter 2 of JSP 886 Volume 3 Part 2 – Contactor Logistic Support.

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## **LOSSES AND STOCKTAKING REPORTS**

47. From the data provided during the financial year, SCM-SCO produces an annual report detailing inventory custodian performance on Stocktaking and Materiel Loss management. Whilst providing detailed trend analysis and visibility of materiel accounting across the wider DE&S community, these reports also provide a useful reference document for inventory owners to help assess performance of inventory custodians and inform future arrangements. The data contained on inventory adjustments and write offs can also be used by inventory owners to understand the financial effects / movements on operating cost statements and Statements of Financial Position.

48. Detailed policy and procedures underpinning **Stocktaking** and **Materiel Loss** management is contained in JSP 886 Volume 4.

## CHAPTER 3: FINANCIAL ACCOUNTING FOR GOVERNMENT FURNISHED EQUIPMENT

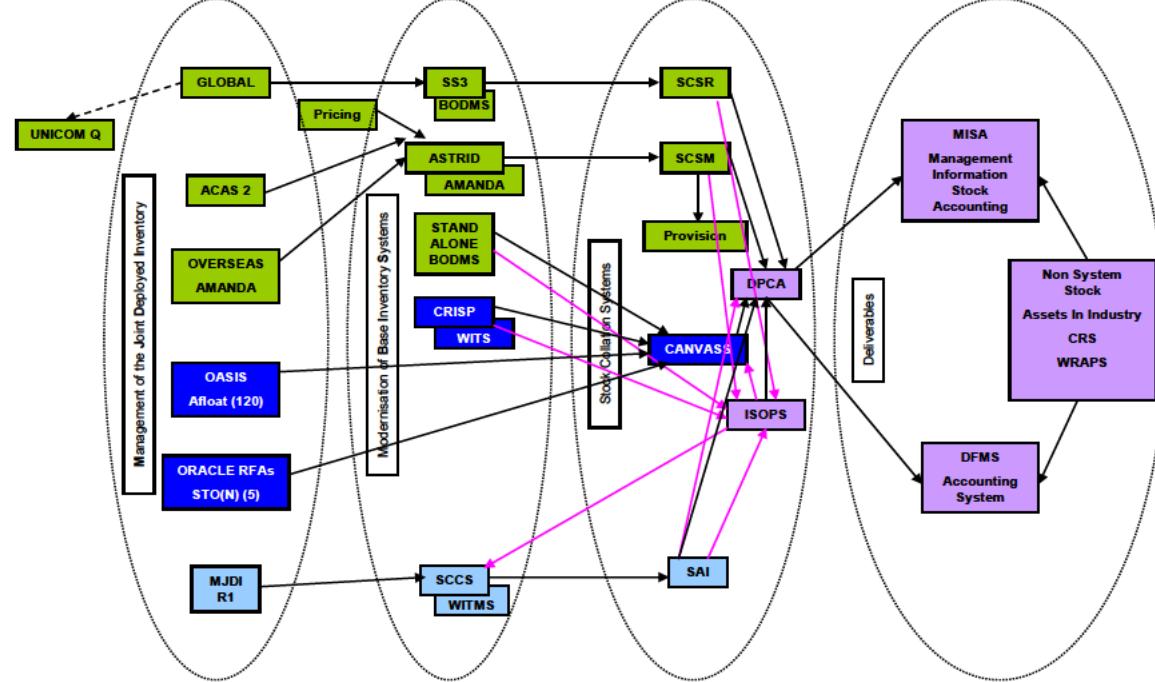
### PURPOSE

1. Currently, significant work to improve the financial accounting process for Government Furnished Equipment (GFE) is being undertaken by the Asset Accounting Centre (AAC) and DE&S Fin FA – IAET to enable Project Teams (PTs) to validate their holdings of GFE. In order to maintain a robust audit trail, Defence Internal Audit - Asset Accounting Centre (DIA-AAC) collect data on behalf of PTs and after analysis, a journal reflecting balances and movements is posted to the DE&S financial accounts (Oracle). The current procedures for financial accounting of GFE are set out in the following paragraphs. It is the intention that in the future, the financial accounting data will be processed through the Stock Accounting Collation System (DSACS). See Figure 5 below.
2. Policy for materiel accounting for GFE is set out in [JSP 886 Volume 4 Part 4](#).

### SCOPE

**Figure 5: Stock Accounting Collation System**

**Inventory Collation System – DSACS data flow**



3. GFE is a generic term used to describe MOD funded and owned inventory supplied to industry in support of Defence contracts. GFE is synonymous with the term Assets in Industry (AiI).

### LOAN TYPES

4. The current loan types used for reporting data are:
  - a. Contract Support Item (CSI) – previously Ordinary Loan.

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- b. Contract Embodiment Item (CEI) – previously Embodiment Loan including CBSS, CRSP and CRSS.
- c. Contract Work Arising (CWA) – previously Contract Loan Arising.

## **OWNERSHIP**

5. Normally ownership is vested in the PT who procures the item. However, under a GFE contract a range of PTs may have procured contract issued property. In these circumstances ownership of the GFE falls to the PT who raised the contract to issue the loan to the contractor. Ownership will only be assigned to a PT where an audit trail exists; otherwise the default will be TLB. The ownership rules can be summarised as follows:

- a. CSI – the PT that procured the item.
- b. CEI and CWA – the PT that raised the maintenance / repair contract.

## **REPORTING PROCESS**

### **Collection**

6. The DIA-AAC collects data on current balances annually from Contractors. The data is fed into their Ail database (DB) where it is electronically matched against existing data and where matches are made the old quantities are substituted with new ones and the new stock position recorded. Where no match is made to existing data the old quantities are ‘nulled’. The unmatched items with new positive quantities represent additional holdings and are added to the database.

7. All New contracts and contract amendments (from 1 Apr 07) have included DEFCON 694; the requirement for contractors to supply, on a quarterly basis, transactional and balance data on their holdings of GFE. The intention is that, as more data becomes available under the revised DEFCON the data in the Ail DB will be refreshed quarterly, thus replacing the annual collection exercise. This will also allow PTs in year to validate with their contractors their GFE holdings.

### **Valuation**

8. Where possible prices are obtained from the Integrated Stock Ownership and Pricing System (ISOPS) and a consolidated Pricing table is created. This Pricing table is then run against the main DB to update the prices. Where necessary the prices are adjusted for inflation by DE&S Fin FA – IAET, based on uplift factors supplied by Defence Analytical Services and Advice (DASA).

9. Residual non-priced items are given prices, in priority order, from the following sources:

- a. **PT or Contractor supplied price.**
- b. **Temporary Estimated Price (TEP).** An average **unit price** calculated from the first 90% of the ascending unit costs of the available population by generic description. This average will then be applied to those non-priced items that share the same generic description and are owned by the relevant Management Group (MG) / Domain.

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c. **Temporary Average Price (TAP).** As a last resort, any remaining non-priced items will be priced by calculating an average line value for each loan group and MG / Domain within each contractor. This average will again be based on the first 90% of the ascending line values of the available population, and divided by the actual quantity to produce a unit cost. If there are no priced items present for a particular contractor then the averaging process will be based on the loan group within environment.

10. The VAT indicator in the Pricing table will be used to generate a VAT inclusive value.

### **Activity Status**

11. The activity status used for setting provisions is derived on the following basis:

a. The contract number is compared to Defence Business Support (DBS) Shared Service Centre database and other contract databases, also:

(1) If it is present = Active.

(2) If database shows retrospective closed date = Inactive.

(3) If contract cannot be found, information on usage is then used to determine the activity as follows:

(a) If item has been used within last two years, or is planned to be used in the next 3 years = Active.

(b) If the item has not been used for 2 years and there are no plans to use it = Inactive.

b. If there is no information on the contract or usage, activity status is shown as Unknown, and for accounting purposes this equates to Active.

### **Depreciation and Provisions**

12. DE&S Fin FA – IAET will apply adjustments for Depreciation and Provisions at PT / BLB level, based on the average % for each PT / BLB. A 100% provision will be applied for all Inactive Raw Materials and Consumable items (RMC).

### **Asset Categories**

13. An electronic extract from the Log IS, which includes against each NATO Stock Number (NSN) an asset category flag (Consumable Stock; Capital Spares; Fixed Assets), is run against the DBS Ail Data Base and the category field is populated with the appropriate Resource Accounting Code (RAC). If any fixed assets are identified they will be marked as 'out of scope' and excluded from the final ARAC reports.

**Figure 6: Asset Categories**

<b>Loan Type</b>	<b>Unit Price</b>	<b>Asset Category</b>
CEI, CSI & Unknown	£0.01 to £399.99 £400 & above	Consumables Capital Spares
CWA	All	Capital Spares

14. For non-codified lines the asset category is based as Figure 5.

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### **Revaluation**

15. DE&S Fin FA – IAET will calculate the increase in value through either an actual or indexed re-assessment of the assets and make the appropriate posting to the revaluation reserve RAC.

### **Adjustments**

16. DE&S Fin FA – IAET will adjust the ‘GROSS’ values to remove areas of double accounting where the account has already captured values for Fixed Assets accounted for by the DBS and specific loan schemes (eg. CSI is used within D Ships Operating Centre (OC) and Contractor Repair Spares Programme (CRSP) is used within D Combat Air, D Air Support and D Helicopters OCs. The PTs will be notified of all lines excluded and the reason for exclusion and it will be their responsibility (with the exception of CRSP, which IAET will account for) to ensure these assets are accounted against the relevant RAC.

### **Journal Postings**

17. Journals are produced by DE&S Fin FA – IAET for all movements in balances, depreciation / provisions and revaluations and posted into the accounts on behalf of PTs.

### **Reports to PTs**

18. Following the posting of the journal, DE&S Fin FA – IAET will forward to each PT details of the data collected in respect of items managed by them as follows:

- a. Statement of balances and movements, down to NSN / Part Number level.
- b. Details of journal.
- c. Details of other assets not included in statements (e.g. Assets under Construction, Fixed Assets, NATO inventory) where it is assumed these are being accounted for by other systems.

### **PT RESPONSIBILITIES**

19. The data at [Paragraph 17](#) is provided to PTs to help them validate and analyse their accounts. Specifically a PT should:

- a. Ensure all GFE is accurately accounted for by obtaining up-to-date prices for items and maintaining the data in ISOPS.
- b. Ensure any GFE not included in the journal is being accounted for in the accounts e.g. Fixed Assets being accounted for by the DBS.
- c. Ensure no double counting is occurring, particularly between GFE and the Non Current Asset Register (N-CAR).
- d. Confirm ownership of items / contracts and ensure existence of auditable trail.
- e. Check for surplus holdings and take disposal action.

20. After validation of the data, any proposed changes must be discussed with DE&S Fin FA – IAET who will, if necessary, amend the accounts and maintain a robust audit trail.

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PTs must not amend the accounts. This includes excluding lines or transferring lines between PTs / BLBs.

#### **Contractor Repair Spares Programme (CRSP)**

21. DE&S Fin FA – IAET will collect CRSP data on a quarterly basis from identified CRSP holding contractors. This data will be collated in a database where Scheme Code combined with NSN / Part Number, ownership and stock category will aggregate lines. A price will then be applied from ISOPS. Depreciation / Provisions will be applied on the basis of Unit Identification Number (UIN) (Provisions) or Type Mark Applicability (TMA) code depreciation, with the average provision by UIN or BLB being applied where no TMA data is available.

22. The SoFP values will be posted each quarter by DE&S Fin FA – IAET, with the previously posted journal being reversed. Any reductions will be posted as consumption and increases as ‘write-ons’ to the SoFP. The calculated data on provisions will be passed to PTs and other inventory owners for validation and subsequent posting into the accounts.

#### **Contractor Logistic Support (CLS) Contracts**

23. DE&S Fin FA – IAET will provide PTs with quarterly materiel accounting data for CLS contracts, including CfA and CfC, where DEFCON 694 has been enforced. PTs are responsible for making arrangements to financially account for these assets in accordance with the criteria to be considered, set out in SSE KSA 3. Where DEFCON 694 is not enforced, the PT will be responsible for establishing arrangements in respect of ownership and the materiel / financial accounting for assets held in industry under CLS terms.

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## **ANNEX A: MOD PRICING POLICY**

(Introduced at Chapter 2 [Paragraph 12](#))

### **Integrated Stock Ownership and Pricing System (ISOPS)**

1. ISOPS replaces the following legacy systems as the only price source and allows for one new manufacture price to be held for each NSN in the inventory:

- a. Central Price Record (CPR) for inventory holdings on CRISP and BODMS.
- b. Pricing 2000 for inventory holdings on SCCS and the CRSP database.
- c. ASTRID for inventory holdings on SCS(S).

2. **Price Value Codes (PVC).** ISOPS and inventory management systems allow prices to be held against three main PVCs as described below. Other PVCs are used within the Air PTs and these are covered in more detail within the ISOPS User Guide.

a. **PVC Code B - Basic Material Price (BMP).**

- (1) The BMP is the price per Denomination of Quantity (D of Q) for an individual item of inventory and includes one of the following:
  - (a) The most up-to-date contract price.
  - (b) The latest value obtained from a running contract price list.
  - (c) The best technical valuation for a materiel conditioned 'A1' item available from contractors, MOD engineers or professional commercial valuers.
  - (d) A price based on one of the above methods, but adjusted for inflation if the value was entered prior to the preceding Financial Year.

(2) For all inventory systems, the following charges are to be applied, on top of the contractor's ex-works price, where it is known these costs have been incurred and can be readily identified to individual items:

- (a) Packaging.
- (b) Embodiment Loan Issues.
- (c) Contract Design and Tooling Costs.
- (d) Contract Testing and Inspection Charges.
- (e) Royalties.
- (f) Import Duty.
- (g) Non-Returnable containers.
- (h) Agency Fees (where charged by one Government department against another).

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- (i) Carriage (inwards).
- (j) Discounts (may be included where the PT considers this to be appropriate).

b. **PVC Code E - Estimated Prices.** These are defined as temporary prices pending formal verification and conversion to Basic Material Price (BMP). They should be based on at least a reasonable estimate of the actual price of the item, using sound engineering and technical judgement. Nominal prices (defaulted to £0.01, £1.00 etc) are **not** acceptable and **should not** be input under any circumstances. Estimated prices **must not** be recorded against items with stock for longer than 3 months after acquisition.

c. **PVC Code N - Notional Prices.** This term, which pre-dates RAB, now only applies to Stores System 3 (SS3) and is used to describe prices that are automatically generated by the system and should not be input manually. **No other** notional prices are acceptable. Notional prices **must not** be recorded against inventory items with stock.

### **Pricing Responsibilities**

3. All DE&S PTs are responsible for maintenance of their own price updates although this process varies slightly between Maritime / Air PTs and Land PTs with stockholdings on SS3.

4. Maritime and Air PTs are responsible for their own price updates using ISOPS. For Land PTs, contract details for in-service procurement are recorded on Purchase Management System (PUMAS) and prices are automatically transferred to SS3, which acts as the master price list. For Defence Clothing (DC) and Engineer Support System (ESS) Battlefield Support, contract details for 'in service' procurement are recorded on Computer Aided Review System (CARS).

5. In addition to managing all their own prices, Defence General Munitions (DGM) PT also have responsibility for undertaking all price inputs and amendments on ASTRID for all DE&S PTs with inventory holdings on the armament Stock Collation System (Secret) (SCS(S)).

6. Step-by-step procedures for entering / updating / validating / amending prices are contained within the ISOPS or SS3 / PUMAS / ASTRID User Guides.

### **Price Sources**

7. **Contract Prices.** All inventory owners are to ensure all prices originating from new manufacture contracts, contract amendments, running contract price lists, etc. are promptly entered onto ISOPS or PUMAS / MIRAGE / SS3 / ASTRID as appropriate. Only the new manufacture price is to be entered, repair prices are not to be used.

8. **Contractor Logistics Support (CLS) Arrangements.** It is essential that inventory which remains on the MOD SoFP is subject to the same accurate pricing process as detailed above for new contract prices. The policy and procedures to be followed for all CLS agreements is detailed in JSP886 Volume 3, Part 2 and SSE KSA 3. Further advice can be obtained from DE&S Fin FA – IAET as necessary:

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**9. Government Procurement Card (GPC) Purchases.** A price obtained, as a result of using a GPC should only be entered onto the price record if no contract is already in existence. Caution should always be exercised as urgent requirements purchased using GPC could artificially inflate or deflate the price. As only one price is held per item the GPC figure will overwrite the existing price, which could lead to fluctuations in the accounts.

**10. Volumetric Price Updates.** DBSO-ADMT and DGM PT are responsible for inputting to ISOPS all volumetric price updates. These will apply to all contracts / price lists that contain 50 or more items. However, copies of the source data will need to be retained by the PT, and may be subject to audit checks by the NAO. Hard copy contracts do not need to be forwarded to the DBS Pricing Team. Inventory / Commodity / Supply Managers should liaise with commercial groups on the production of soft copy volumetric inputs wherever possible, as this will result in a significant reduction in manual inputs requiring action by the PT. The data should ideally be in Excel format (LNG format for SS3 users); although other formats compatible with Excel may be acceptable. The following information must be included:

- a. DMC / IMC / NSC (Domestic / Inventory Management Code).
- b. NC (Nation Code) / NATO Supply Classification (NSC).
- c. NIIN (National Item Identity Number / Stock Number).
- d. DofQ (Denomination of Quantity).
- e. Price per DofQ (excluding VAT).
- f. Authority for Price (eg. Contract number).
- g. Date of Authority.
- h. It should also state whether the contract is 'running' or 'fixed'.

**11. Value Added Tax (VAT).** Prices on all systems are always **exclusive** of VAT. All Supply Systems hold indicators showing whether VAT should be applied later in the accounting process and maintenance of these codes is the responsibility of the PT.

### **Government Accounting Rates**

**12.** ISOPS automatically converts a range of foreign currencies to pounds sterling using the Government Accounting Rate (GAR) applicable at the time and this process is monitored by DBSO-ADMT to ensure the correct rate is always applied. SS3 and ASTRID, however, do not provide this facility and any required conversions will need to be calculated by PTs or DBSO-ADMT using the current GAR prior to data entry.

### **Price Banding**

**13.** When contracts and price lists contain several prices for one item depending on the quantity purchased, the PT is responsible for selecting the most appropriate price for entry onto ISOPS. This may reflect the most common purchase quantity but must always be representative of the equipment's value.

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## Audit Trail

14. All prices must be supported by a full audit trail. It is therefore the responsibility of either the PT or DBSO-ADMT, depending on who has entered the price, to retain for a minimum of 6 years all supporting documentation. This must be sufficient to allow an auditor to confirm that the price has been obtained from a verifiable source. Examples of acceptable documentation are: a contract or paperwork relating to a contract; a contractor's price list; a contractor's written quotation; an ASTRID Form 1 or a legitimately authorised technical and engineering evaluation.

## Price Validations

15. The inventory may be incorrectly valued if inventory items are priced incorrectly. Therefore, governance exercises (set out in Paragraphs 16 to 25) will be undertaken by DBSO-ADMT to improve data quality and comply with NAO requirements.

## Monthly Estimated Prices with Inventory

16. Each month, MISA will automatically identify estimated prices with inventory and transmit the details to ISOPS. DBSO-ADMT will inform PTs / inventory holders when this data is available for review and they will then be required, **within 3 months**, to replace estimated prices with validated BMPs complete with auditable documentary evidence as previously described. ASTRID estimates are automatically updated upon the receipt of contract information (a review is being introduced to ensure currency / accuracy of all prices).

17. Land PTs update SS3 directly, informing DBSO-ADMT when this has been completed. Maritime and Air PTs should update ISOPS, informing DBSO-ADMT when this has been completed.

## Monthly Notional Prices with Inventory (Land PTs only)

18. A monthly download of all notional prices with inventory is obtained by DBSO-ADMT and forwarded to PTs / inventory holders who are required to ensure that these are amended to valid BMPs informing DBSO-ADMT, **within one month** that the work has been completed. BMPs will need to be based on auditable documentary evidence as previously described.

19. Maritime and Air systems do not hold Notional Prices ([Paragraph 2c](#) refers).

## Monthly Zero Prices with Inventory (Air and Land PTs only)

20. Any zero prices with inventory are identified on a monthly basis by MISA and are handled as per Paragraph 16 above. PT / Inventory Holders are required to update these prices within 1 month of stock appearing on the system.

21. Maritime system does not hold Zero Prices.

## Annual - Over 5 Years Old Pricing Review

22. As agreed with the NAO, DBSO-ADMT undertakes an annual joint programme of work with Defence Analytical Services and Advice (DASA) to validate the prices of MOD Inventory. The agreement specifies:

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- a. Prices are reviewed at least every fifth year.
- b. Prices less than 5 years old or less than 5 years since last price review are considered valid and are therefore excluded from the exercise.
- c. Prices over 5 years old or more than 5 years since last review are divided into two groups.
  - (1) The top slice consisting of a high proportion of the value of inventory, but a small proportion of the lines, are subject to 100% validation as advised by DASA.
  - (2) The bottom slice made up of a sample of the remaining lines, will be subject to statistical analysis by DASA. The results are used to determine whether an adjustment needs to be made to the overall population.
- d. DBSO-ADMT forward top and bottom slice data to PTs for review and annotation of any amendments. The data must be returned to DBSO-ADMT by the specified date. This will enable DASA to complete their analysis and report their recommendations within the required time-scales.
- e. Due to the relatively small number of items, all ASTRID prices that are over 5 years old are submitted to the relevant PTs for review. Returns should be forwarded to the DGM PT Inventory Finance Team by the required date.

#### **Annual Indexation Uplift**

23. Item prices that have not been updated within the previous 12 months and are not subject to extant running contract price lists are subject to a price uplift to take account of inflation. The uplift figures are supplied by DASA (Economics Statistics) against the different inventory groupings / categories of store. PTs / inventory owners will be informed annually of the rates to be used prior to indexation action being undertaken by DBSO-ADMT.

#### **Weekly Management Checks**

24. Sample checks are to be undertaken by PTs to ensure the accuracy of data input. In particular price increases or decreases greater than 20% are reviewed weekly. Price increases or decreases of greater than 900% are subject to more stringent validation.

#### **Monthly Price Mis-Match Exercises**

25. Occasionally mis-matches can occur between the data held on ISOPS and that on the supply system (CRISP, SCCS, SCS(S), and SS3) some of which are inevitable due to time delays in the transmission of data between the legacy systems. PTs are to regularly review and correct any anomalies.

#### **PT Performance**

26. DBSO-ADMT will continue to produce a monthly table depicting each PTs performance and progress with managing / validating pricing records against the various exercises. This information is one of the key documents viewed by the NAO during the annual ARAC review and is used by them to identify which PTs will be subject to detailed scrutiny of price records, data management and maintenance. It is therefore in each PTs

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best interest to ensure price validation exercises are actioned promptly to avoid errors and / or misstatement of inventory accounts.

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## **ANNEX B: INVENTORY PLAN CHECKLIST**

(Introduced at Chapter 1 [Paragraph 5](#))

1. This Inventory Plan checklist is used in the assessment of PT Inventory Plans.
2. Are there any specific NAO issues pertinent to the PT? Where the NAO have made observations in respect of the PT in previous year(s) is there evidence of satisfactory remedial action having been taken.
3. Does the PT maintain a current Inventory Accounting Audit pack (IAP) to support the financial accounts? Where the IAP has been independently assessed the assessment will be taken in to account in the assessment of the Inventory Plan.
4. Is there evidence of data integrity being maintained, up to date and accurate and in accordance with MOD Policy?
5. Where the PT has CLS / IOS type partnering arrangements with industry, do the financial accounts meet the requirements of MOD policy?
6. Is the entire inventory codified? Where this is not the case, is there a plan in place to codify non-codified items or a valid and approved business reason for non-codification?
7. Where stocks are held on systems other than MOD main supply systems, are there processes in place to ensure the capture of accurate and current data on balances and transactions. Is there evidence this data is being systematically processed in to the financial accounts within the PT?
8. Have the Front line command(s), affected by PT owned inventory, endorsed the current iteration of the Inventory Plan?
9. Where the PT has Government Furnished Equipment (GFE) in the hands of contractors, does the Inventory Plan support the financial accounts and contain evidence of compliance with MoD policy?
10. Is there any evidence the PT is not in compliance with the requirements of JSP 472, JSP 886 or guidance in Annexes to JSP 472?