



MINISTRY OF DEFENCE

JSP 886 DEFENCE LOGISTICS SUPPORT CHAIN MANUAL

VOLUME 4 MATERIEL ACCOUNTING

PART 1 FUNDAMENTALS OF MATERIEL ACCOUNTING

**THE MASTER VERSION OF JSP 886 IS PUBLISHED ON
THE DEFENCE INTRANET.**

**FOR TECHNICAL REASONS, EXTERNAL LINKS ON THIS
INTERNET VERSION HAVE BEEN REMOVED.**

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CHAPTER 1: FUNDAMENTALS OF MATERIEL ACCOUNTING

INTRODUCTION

1. Materiel encompasses all Service equipment, stores, supplies (including Combat Supplies, those items obtained by Contract / Low Value purchase procedures and items held by the MOD on behalf of contractors), spares and livestock that make up the MOD Inventory. Accounting is the process of maintaining and auditing accounts, and preparing reports on the assets and liabilities of an organisation. Therefore, Materiel Accounting (MA) entails maintaining records, whether manual or automated, of the quantities and condition of materiel, which has been received, held and issued, in such a way that the source, current location and final destination of the items can be determined together with a system for recording, investigating and reporting of discrepancies between the account and the physical stock. These rules are universal in application and provide the framework within which owners of materiel (eg equipment or commodity managers) make decisions about equipment and spares in the physical custody of others, eg ships, regiments and units plus agencies, contractors and industry. These rules also include appropriate legislation such as Control of Explosives Regulations (COER) 1991 and the Firearms Act 1968, further details of which can be found in JSP 482 – MOD Explosives regulations. Accurate and timely MA is an essential prerequisite to the MOD Inventory Management process and provides the basis of item accountability and visibility. In turn, visibility is the key enabler that allows the chain of command, equipment owners and managers to make best use of corporate resources in support of delivering operational capability.

2. MA should not be confused with Resource Accounting and Budgeting (RAB). MA is item and quantity led, whereas RAB is finance led. MA cannot be aligned directly to the values in the financial accounts (Balance Sheet and Operating Cost Statement). However, MA can be used to generate management information to support RAB, which has introduced new methods of planning, controlling and reporting resource requirements to satisfy Treasury and the National Audit Office (NAO) scrutiny and to meet Government accounting rules. For example, accounting for stock in MA terms records quantities and transactions, whereas in RAB terms it is a record of the financial value of stocks and their consumption. Consumable stocks, such as low value articles-in-use, may be deemed immaterial and may not be reflected in the Balance Sheet under RAB, but will still be accounted for under MA regulations for managerial purposes. It is, therefore, important to recognise that MA is essentially about Inventory Management, whereas RAB is about Financial Management. Further details on the specific requirements of RAB can be found in JSP 472: Resource Accounting Policy Manual.

PURPOSE

3. The purpose of this instruction is to provide a basis for common and best practice by describing the fundamental principles and requirements that underpin the MA accounting systems for MOD materiel. It includes the definitions of the MA Classification Codes for Accountable, Permanent (P), Limited (L) and Consumable (C) classes of items of materiel and introduces rules for determining whether an item should be classed as P, L or C. MA instructions appropriate to specific processes or commodities are contained elsewhere within JSP 886 Volume 6.

OWNERSHIP AND POINTS OF CONTACT

4. The policy, processes and procedures described in the Defence Logistics Support Chain Manual (JSP 886) is owned by Director Joint Support Chain (D-JSC). Head Supply

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Chain Management (SCM-Hd) is responsible for the management of JSC policy on behalf of D JSC. Deputy Head Supply Chain Management (Supply Chain Policy) (Dep Hd SCM-SCPol) is responsible for formulating policy on the Fundamentals of Materiel Accounting which is subject to ratification by the Logistic Policy Working Group (LPWG).

5. Enquiries about the content of this document should be addressed to:

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GLOSSARY OF JOINT SUPPORT CHAIN TERMS

7. A Glossary of Joint Support Chain terms is available at JSP 886 Volume 1 Part 1A.

LINKED PUBLICATIONS

8. The following publications are linked to this instruction:

- a. GA 2000: Government Accounting Regulations (GAR).
- b. [JSP 462: Financial Management Policy Manual](#).
- c. [JSP 472: Resource Accounting Policy Manual](#).
- d. [JSP 482: MOD Explosives Regulations](#).

SUPERSEDED PUBLICATIONS

9. This instruction supersedes Volume 10, Part 9: The Fundamentals of Materiel Accounting version 1.1, which is cancelled.

CHAPTER 2: PRINCIPLES OF MATERIEL ACCOUNTING

PRINCIPLES

1. Materiel Accounting (MA) is based upon the following principles:
 - a. Every item of materiel supplied or service provided by the MOD to its customers is paid for by the taxpayer. Every purchase of materiel, the cost of its receipt, storage, maintenance, issue, transportation, and deterioration, disposal or loss if it is not used or available for the purpose for which it was purchased, together with all the management activity and costs connected with those activities represents a considerable cost to the taxpayer. Each item of materiel therefore has a direct financial value and needs to be managed as if it were a resource.
 - b. MA procedures must generate a maintainable audit trail. This is to be achieved through the provision of an auditable record of stores purchased, due, received, stocked, issued and returned. As well as adjustments made and losses actioned, it must also provide checks and controls to monitor and prevent theft, fraud, negligence and breaches of security (for example, those issues covered in the Control of Explosives Regulations (COER) 1991 and the Firearms Act 1968). It provides data that can be translated into management information on which decisions for improvements in efficiency, effectiveness and value for money can be based. It provides a basis against which management can measure performance and account for its stewardship through the chain of command to the Permanent Under Secretary of State (PUS) as the Accounting Officer.
 - c. In order to assist officers with materiel and financial accounting responsibilities, the Treasury has issued the document 'Government Accounting 2000' which provides a guide to accounting and financial procedures for the use of government departments. Although described as a guide, 'Government Accounting' lays down in broad principles the accounting procedures which must be complied with. MA policy, processes and procedures are to ensure compliance with these principles to avoid possible criticism from the National Audit Office (NAO) and, in turn, the Public Accounts Committee (PAC) of the House of Commons.
 - d. MA provides the mechanism for the management control of materiel to provide some assurances that it is available at the right time and place to support operational and peacetime activity. These are the overarching principles upon which MA procedures are based. The procedures must be sufficiently clear and robust to guarantee compliance with Government Accounting Regulations (GAR) and all other relevant rules or regulations.
 - e. MA procedures should be simple and effective, and should incur the lowest possible human resource and financial costs consistent with maintaining effective supply support and adequate safeguards against theft or fraud.
 - f. Where practicable, there should be a common method of MA for all commodities, based on converged processes and procedures and information systems, utilising common forms and publications, and identifying individual items using the unique NATO stock number codification system.
 - g. Materiel should be classified as either Accountable, for which a record is maintained at all times, or Consumable, for which a record is only required prior to its

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issue from stock to a user (see Chapter 3 Paragraph 1). This ensures the visibility of essential materiel and an audit trail, whilst costs associated with accounting are kept to a minimum.

- h. As materiel may be considered attractive, systems are to be designed to minimise the risk of theft and fraud, through the application of robust control procedures. These controls must include physical checks, stock reconciliation, supervisory checks, and a segregation and rotation of duties with clear roles and responsibilities. Segregation of duties and responsibilities are to be designed to ensure that storekeeping and stock accounting functions (including adjustments) are performed by separate individuals. In particular, stocktaking is to be undertaken, wherever possible, by personnel who are independent of the storekeeping and stock accounting functions. As a minimum requirement, the physical checking and reconciliation of materiel account balances is to be undertaken by separate individuals. Furthermore, adjustment of an account is only to be made by staff authorised by their individual role and responsibilities.
- i. To ensure common practices of MA, deviation from established Defence-wide and, where applicable, single-Service methods of MA, are to be avoided at all times. Where local systems, processes and practices are employed, they are to comply with the Principles of MA defined in this instruction. Any deviations from these principles will require special dispensation from Supply Chain Management (Inventory Management), (SCM (Inv Man)).
- j. MA must comply with GAR, whilst remaining flexible enough to meet differing levels of operational activity, thus allowing Front Line Commands (FLCs) the option to increase or reduce levels of MA depending on the operational requirement and level of activity. Materiel Accounting During Operations is the subject of a separate instruction (See JSP 886 Volume 4, Part 3)
- k. Accounts are to contain sufficient detail to enable generation of MA, RAB and Financial Accounting management information. In this context, the basic elements of item data are to be detailed enough to identify detail of stockholdings, their location and condition, individual owners and values. In addition, all activity is to be recorded in the transaction history to allow generation of management information on key performance indicators identified elsewhere within JSP 886, JSP 482 and in Customer Supplier Agreements and other similar agreements between the Stock Owner and Custodians.
- l. All MA systems (manual and electronic, current and future) are to comply with the principles contained in this Chapter and are to be accredited by SCM (Inv Man). Accreditation will be in the form of a letter or certification issued following a compliance check of MA processes and procedures. Any deviations will require special dispensation from SCM (Inv Man).
- m. As a general rule, the control of stores accounting records should rest with office staff independent from the day to day physical storekeeping as a safeguard against theft and fraud.
- n. While other people may be allowed access to the records for operational reasons, any adjustment of the accounts should only be made by staff authorised to carry out that task.

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- o. The tasks of ordering stores, checking deliveries and authorising payments are to be separated wherever possible.
- p. Procedures for stocktaking are to provide for independent verification of stocks. In this context, personnel independent of the storekeeping and stock accounting functions should undertake stocktaking. The minimum requirement is that any physical checks and reconciliation processes are to be undertaken by separate individuals.

ROLES AND RESPONSIBILITIES

2. The following Posts and Departments have specific roles and responsibilities that apply to Materiel Accounting:

a. Dep Hd SCM-SCPol:

(1) Within the Director Joint Support Chain's (D JSC's) area of DE&S, Dep Hd SCM-SCPol is responsible for ensuring comprehensive policy and procedures are published for the accounting of publicly funded materiel and by providing some assurances that publicly funded materiel is correctly accounted for. This is achieved through the publication of MA policy, processes and procedures (including the requirement for a full audit trail to be generated and maintained) combined with a variety of checks, controls and management information.

(2) In discharging his / her responsibility, Dep Hd SCM-SCPol is to ensure MA procedures strictly comply with MOD instructions on financial procedures and accounting records. These include the guidance on financial and accounting matters contained in:

- (a) GA 2000: Government Accounting.
- (b) JSP 414: Management Strategy.
- (c) JSP 462: Financial Management Policy Manual.
- (d) JSP 472: Resource Accounting Policy Manual.
- (e) Other relevant guidance on propriety, regularity and value for money issued by the Treasury or the Cabinet Office.

(3) Dep Hd SCM-SCPol is the focal point for MA within the MOD and is always to be consulted prior to the introduction of any new MA system, or if it is proposed to make any significant changes to an existing system. Additional responsibilities include:

- (a) Maintenance and review of MA policy, processes and procedures.
- (b) Monitoring of MA performance.
- (c) Advice and guidance on MA matters.
- (d) Ensuring compliance with MA policy, processes and procedures.

b. **The Asset Accounting Centre (AAC).** The AAC has responsibility for Government owned materiel and equipment issued on loan to defence contractors

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under the terms and conditions of MOD contracts. AAC is tasked with the installation and supervision of Public Store Accounts (PSA), and provides a focal point for the contractor to which stores accounting queries may be referred.

c. **The Stock Owner.** The Stock Owner (Inventory Holder) of individual items is the decision maker with regard to acquisition, retention and disposal, and the Management Group (MG) in which Balance Sheet the items are reported. The Stock Owner is normally responsible for project, commodity or equipment support management (normally an Integrated Project Team (IPT)), but is not necessarily the custodian of the items or item purchaser.

d. **The Custodian.** The custodian is the physical holder of the items, ie the guardian or keeper on behalf of the owner, and can be an organisation external to the Department under specific contractual arrangements that may include responsibilities for maintaining the account.

Dispensations

3. Where full compliance with these principles is not possible or not considered practicable a request for dispensation may be submitted to Dep Hd SCM-SCPol for consideration. The dispensation is to be a formal application submitted via the appropriate chain of command and must include details of shortfalls and proposed corrective measures or checks.

CHAPTER 3: REQUIREMENTS OF MATERIEL ACCOUNTING

ACCOUNTING FOR MATERIEL

1. All materiel is to be recorded in an account until such time as it is issued for use. Once issued from the account materiel is to be accounted for as either Accountable or Consumable, depending on the nature of the item of supply. The classification of an item of supply may be adjusted during its life as decided by the item owner. Accountable and Consumable items are defined as follows:

- a. **Accountable Materiel.** Accountable materiel comprises items that are accounted for on MOD Inventory systems throughout their in-service life and a Materiel Accounting (MA) audit trail is maintained until they no longer serve the purpose for which they were acquired due to loss, embodiment, disposal, scrapping or have been destroyed in planned use. Materiel classed as Accountable will be allocated a classification code of either Permanent (P) or Limited (L) in accordance with Figure 1.

Figure 1: Definitions of Materiel Accounting Classification Codes

Classification Code	Definition
Permanent (P)	<p>An item of materiel that is subject to planned repair and the repair policy dictates that, when unserviceable, it is conditioned by an authorised person and returned for repair to an authorised repair unit/agency.</p> <p>An item of materiel classified as P will remain on the MOD Inventory and a MA audit trail will be maintained until it is consumed by means of write-off, embodiment, disposal or scrapping. When rendered unserviceable in normal use, P class items must be returned to store for replacement on a one-for-one basis.</p> <p>For UNICOM, P class items are sub-divided into P1 (non-serialised) and P2 (serialised) items.</p>
Limited (L)	<p>An item of materiel to which one or more of the following applies:</p> <ol style="list-style-type: none"> a. Item is security classified, ACTO (formally Useful to the Ill Disposed (UID)), valuable or considered attractive. b.. Item is not subject to planned repair but the repair policy dictates that it is capable of economic repair locally. c. When unserviceable beyond economic rectification, is conditioned by an authorised person as scrap. d. When unserviceable, will normally be returned to store for replacement on a one-for-one basis. e. Identified by the owner as limited owing to factors such as long lead time, mission criticality or no longer in production. <p>Items of materiel classified as L will remain in the MOD Inventory and a MA Audit trail will be maintained until they are consumed by means of use to destruction, write-off embodiment, disposal, scrapping or expended in planned use.</p>
Consumable (C)	<p>As an item of materiel that is consumed or used to destruction, or which is otherwise regarded as consumed of issue.</p> <p>Amplification:</p> <ol style="list-style-type: none"> a. No repair policy is required. b. There is no requirement for the item to be assessed by an authorised conditioner when unserviceable. c. When the item is issued for use, no further accounting action is necessary, other than that required locally for management control.

- b. **Consumable Materiel.** Consumable materiel comprises items that are considered to be consumed once they have been issued for use from a 1st line account; such items are to be classed Consumable (C). However, certain items such as those considered to be Attractive to Criminal or Terrorist Organisations (ACTO)

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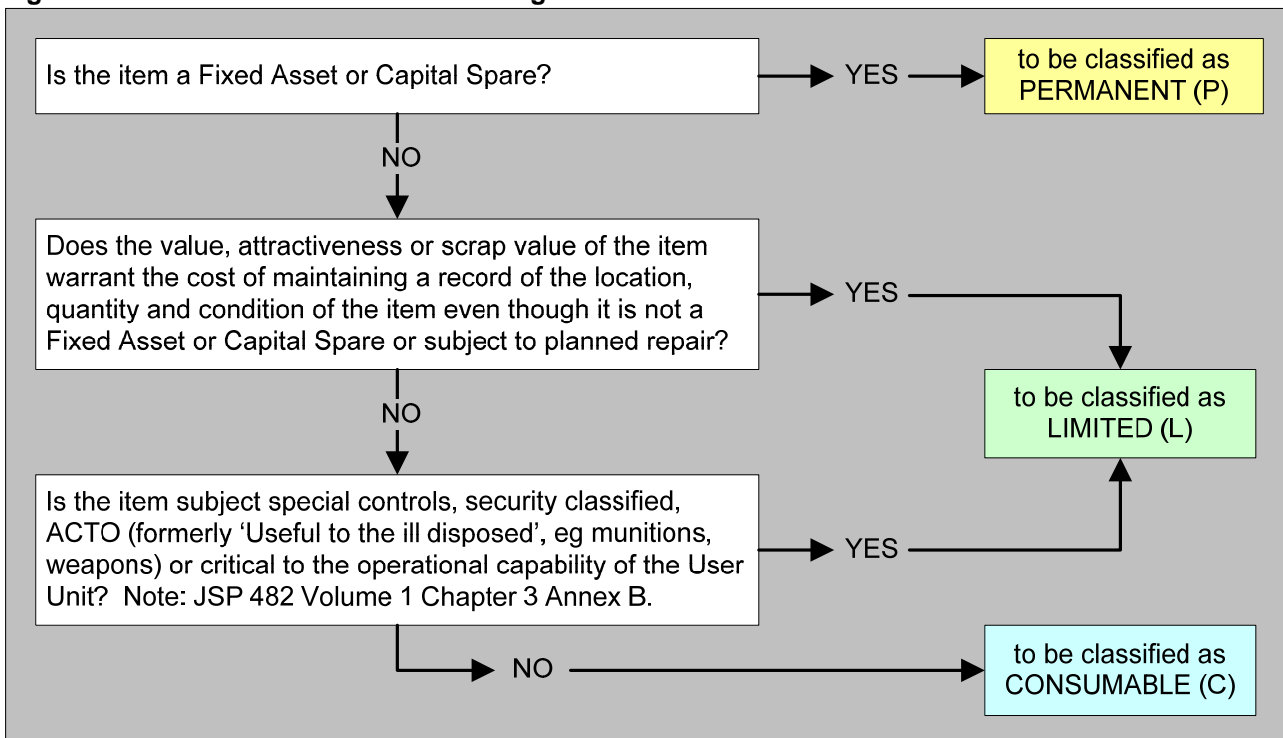
(formerly known as 'Useful to the Ill Disposed (UID)'), valuable, attractive or security classified, will be defined as Accountable in accordance with Paragraph 1a above. Certain consumable items may be classed as Limited (L) by the owner owing to factors such as long lead time, mission criticality or no longer being manufactured and are to be accounted for in accordance with Paragraph 1a above.

MATERIEL ACCOUNTING CLASSIFICATION CODES

2. For audit and control purposes, a record of locations, quantities and condition of P, L and C class items is to be maintained whilst items are held as stock. A record of locations and quantities of Accountable (P and L) items held in-use at 1st Line units is also to be maintained. To reduce the burden of accounting, whilst maintaining visibility of essential items, once items are issued to the end user, ie, become 'in-use', only the locations, quantities and condition of Accountable (P and L class) items are required to be recorded. Records of Consumable (C class) items are not mandatory once they are issued from an account for use. If required for husbandry purposes, records of locations and quantities of 'in-use' Consumable items may be maintained to meet local circumstances or individual management requirements.

3. The criteria to be applied for allocating the MA Classification Codes of Permanent, Limited or Consumable are at Figure 2. There are financial and human resource costs associated with maintaining records for Accountable (P and L) items. The following algorithm is to be applied when determining materiel accounting classification codes:

Figure 2: Allocation of Materiel Accounting Classification Codes



TYPES OF MATERIEL ACCOUNT

4. Within the MOD the principal types of account are as follows:

a. **Stock Account.** A fully auditable record which reflects all activity in the variation of stock levels and movements brought about by issues, receipts, returns and adjustments.

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- b. **Fixed Asset Register.** A listing of Fixed Assets, recorded on the owners' Balance Sheet, which are either in use or held awaiting use and not included on the Stock Account.
- c. **Articles-In-Use Account (AinU).** A fully auditable record of materiel loaned to an individual or organisation for a particular task or purpose. These include any account or sub-account listing items or materiel recorded on the owners' Balance Sheet as Fixed Assets, Capital spares or where stock that is held or in use and is expected to be returned to a main stock account rather than being consumed. Examples include personal loan accounts, armament loan accounts, inventory accounts, loan tools and loan clothing. Items of AinU subsequently surrendered are accounted for as returns.
- d. **Repair Account.** A fully auditable record which reflects all materiel recorded on the owners' Balance Sheet as Fixed Assets, Capital spares and stock that has been issued to other organisations, contractors or MOD agents for repair, refurbishment, servicing or modification.

BASIC MATERIEL ACCOUNTING SYSTEM REQUIREMENTS

- 5. The following are basic requirements for MOD MA systems whether they are electronic or manual:
 - a. Consumable items categorised as 'Attractive' and liable to theft or fraud must be safeguarded by custodians at local level through a robust system of checks and controls.
 - b. Materiel that is security classified is to be treated as P or L.
 - c. All MA systems, manual or automated, are to provide an auditable system for controlling and recording order, receipt, payment, location, storage, issue and disposal transactions affecting the MOD Inventory.
 - d. All MA systems, manual or automated, are to provide an auditable system for monitoring and tracking all materiel, including items classified as scrap awaiting disposal.
 - e. The authority for setting MA policy, processes and procedures is to review them in conjunction with custodians, stock owners and logistics staff at FLCs at regular intervals. This is to ensure coherence between developments in MA and other initiatives both internal and external to the MOD and compliance with GAR, as detailed in GA 2000.
 - f. All accounts are subject to a programme of audit and stocktaking. All account adjustments are to be made by authorised personnel and are to be recorded and reported using auditable processes such as stocktaking.
 - g. To maintain visibility of materiel, units that are not self-accounting, or do not warrant Supply IS, are to be parented by an Accounting Unit.
 - h. MA systems may be extended to non-public materiel where local management requires such items to be recorded on an account. However, the system must be capable of segregating public and non-public materiel to provide assurances that

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publicly funded materiel is properly managed and protected from potential theft and fraud.

VOUCHERS

6. **Certificate Vouchers.** Where Certificate Receipt or Issue vouchers (CRV or CIV) are issued, it must be recognised that this constitutes extraordinary accounting action, eg surpluses being brought to account with no supporting vouchers or, conversely, stores being struck from unit charge with no receiving unit. The certificate voucher is to be endorsed with an explanation of the circumstances surrounding the transaction, the CRV / CIV numbered in the respective voucher series, and the voucher signed by the Materiel Account Holder or a nominated representative.

7. **Blank Vouchers.** Where it is necessary to create a certified blank voucher to account for a number not used, a brief explanation signed by the Materiel Account Holder or a nominated representative is to be given on the voucher.

ACTIVITIES TO BE REFLECTED IN AN ACCOUNT

8. In order to maintain a fully auditable record the following activities, transactions, documents and details are to be recorded and records retained for the appropriate timeframes, as detailed at Paragraph 8 below and at Figure 3:

- a. **Issues, incorporating:**
 - (1) Demand Register.
 - (2) Issue Transaction Summaries (ITS).
 - (3) Abatements.
 - (4) Dues-out Record.
 - (5) Stock Transfers.
 - (6) Disposal / Sale / Scrap.
 - (7) Legal Documents (eg COER).
- b. **Receipts, incorporating:**
 - (1) Dues-in Records.
 - (2) MOD Form 640 Register.
 - (3) Items not yet brought on charge.
 - (4) Abatements.
- c. **Returns, Including Returns Invoice Records.**
- d. **Discrepancies / Defects:**
 - (1) MOD Form 445 - Discrepancy Report.

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- (2) Defect reports.
- (3) Discrepancy Registers
 - (a) Issues.
 - (b) Receipts.
 - (c) Trivial Transit Discrepancies.
 - (d) Discrepancy Reports.

e. **Losses.** Losses comprise all physical losses of materiel, including those due to theft, fraud or negligence and materiel used to destruction or destroyed in conflict. There are various categories of loss that determine the degree of recording and reporting. This requirement is fulfilled by an appropriate method of recording of progress and performance and retention of records of:

- (1) Registers for appropriate categories.
- (2) Issues to Loss UIN.
- (3) Individual case files (where necessary).
- (4) Loss reports.

f. **Stocktaking.** Stocktaking is the process whereby all items of materiel in a storage location are physically checked (counted, measured or weighed), by actual or estimated means, and immediately compared with appropriate accounting records. Items reported in Management Group (MG) Balance Sheets are supported by physical verification, the extent of which is determined by the accounting integrity of the inventory systems on which the items are recorded and an assessment of materiality. This requirement is fulfilled by an appropriate stocktaking regime including maintenance and recording of progress and performance and retention of records of:

- (1) Programme.
- (2) Registers.
- (3) Discrepancy registers.
- (4) Adjustments.
- (5) Six-monthly and Annual reports and certificates.

g. **Low Value Purchasing:**

- (1) Local Purchase.
- (2) Government Procurement Card.

RETENTION OF DOCUMENTATION

9. All auditable MA documents on which administration and accounting action is complete are to be retained for the minimum periods¹ detailed in Figure 3. The use of electronic archiving media is permissible subject to the following:

- a. Archiving equipment meets the acceptable MOD criteria for procurement and security requirements, and a business case has been made for its actual purchase and introduction.
- b. For hard copy documents a record is to be kept of what is copied; the record is to be certified by the computer / document custodian that the original document was destroyed and that the electronic copy is a true copy of the original.
- c. For IS transactions, or other historical records / data or electronic signature, the data must be saved in a retrievable format that can be accessed throughout the appropriate timeframes.
- d. In addition to the retention of auditable records and documentation, other supporting non-auditable records and documentation should be retained for business purposes.

Figure 3: Retention of Materiel Accounting Records and Documentation

Serial	Type of Record / Document	Retention Period
1	Auditable Documents Supporting the Account.	2 financial years plus current financial year.
2	Computer generated documentation produced in support of the account eg consignment tracking, warehouse systems, asset management systems.	2 years from date of production.
3	Contracts and Associated Works Orders.	2 years after completion.
4	Disposal Review Documentation.	2 years.
5	Historical Transaction Records (HTRs).	8 financial years plus current financial year.
6	Issue / Receipt / Return Vouchers.	2 financial years plus current financial year.
7	Issue Transaction Summary (ITS).	2 years from date of ITS.
8	Item Data Record Input / Amendment Documentation.	2 years in IPT registered files.
9	Loss Case Files and Other Supporting Documents.	Minimum of 5 years from date of authorisation.
10	Loss Registers.	Minimum of 5 years from the date of last entry.
11	Non-Auditable Documents.	To be retained at the discretion of local management.
12	Non-Mech Account Ledgers.	5 years.
13	MOD Forms 640, 650 and 650A.	7 years.
14	Provisioning Review Statements (or equivalent).	2 financial years plus current financial year.
15	Quality Assurance (QA) Certificates.	7 years - following final issue.
16	Receipt / Return Vouchers.	2 financial years plus current financial year.
17	Repayment Ledgers and Supporting Documentation.	Minimum of 6 years from date of last entry.
18	Requisition / Local Purchase Order (LPO) documentation.	2 financial years plus current financial year.
19	Requisition / Spec Orders.	2 financial years plus current financial year.
20	Stocktaking - Records and Documentation.	Current cycle plus previous 4 years.
21	Test and Inspection Records.	7 years.
22	Control of Explosives Regulations (COER) Certificate	TBC
23	Registered Firearms Dealer Certificate	TBC
24	Section Five Firearms Act Authority	TBC

¹ Retention periods are currently being reviewed by AD SCS (Stock Man) and may be subject to amendment.

DISPOSAL OF DOCUMENTATION

10. At the end of the appropriate retention period suitable action may be taken to dispose of the records or documents (including electronic archived records or documents) subject to confirmation that:

- a. All accounting activity has been satisfactorily concluded.
- b. There are no outstanding audit questions.
- c. There are no other outstanding matters (eg a suspected fraud) which require the record and / or document to be retained.

11. Computer prints may be disposed at local management discretion after the information therein has been transferred to a more permanent record eg magnetic tape, disc, historical record etc, subject to the criteria contained in Paragraph 8.