Hello and welcome to this session on the SAP Country Version Saudi Arabia. We will discuss the specifics of Financial Accounting and Human Capital Management in the Saudi Arabia Country Version, how SAP manages legal changes for rollout and documentation paths.
After completing this lesson, you will be able to:

- Describe Saudi Arabian Localization requirements
- Outline Saudi Arabian Localization features in SAP ERP
- Explain Saudi Arabian Localization features in Finance and Human Capital Management
- Discuss solution support and the rollout strategy for Saudi Arabia
Let us take a look at the agenda:

First we will give a quick introduction on the Country Version and discuss what Globalization Services offers for Saudi Arabia.

Next we will discuss some highlights of Financial Accounting regarding:

- Reporting Standards
- Statutory Reports & Forms
- Accounts Receivable / Payable
- Other Functions

We will also discuss specification of Human Capital Management, such as:

- Personal Administration
- Time Management
- Payroll
- Reporting
Key Strengths,

- The Country Version supports legal compliance feature for various business transactions, enabling businesses to run better.
- Primary support for these features is provided locally from a highly skilled team.
- The localization lead can help with inquiries and direct your queries to the right people.
- Country version Saudi Arabia is now operational at most of the top corporations in Saudi Arabia, including global business giants across various industries such as public sector, private sector, military sector, retail and banking.
- SAP is also the software of choice in the Public sector.

Challenge

- The main challenges that a business may face in Saudi Arabia include the following:
- Saudi Arabia has a relatively stable regulatory framework, however several additional laws apply to specific business sectors such as public, private and military sector.
- Legislative reforms are often unplanned, applied on short notice and in some cases applied retroactively.
- Interpretation of the law is sometimes unclear and often the technical specification is not always available for development on time.
## Complexity Ranking

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\(^{(1)}\) **Complexity Information** – the individual ranking of the implementation effort for each SAP Country Version: Ranging from “very high complexity” (i.e. very high number of legal changes, difficult to forecast changes, many change dates, major part of SAP portfolio localized) and very complex legal and reporting requirements) to “low or very low complexity” (limited number of legal changes, small SAP Country Version or translation only).

\(^{(2)}\) **Frequency of Legal Changes** - an estimate by the country representatives of SAP Globalization Services how often legal changes occurred in the past, irrespective of whether they affected the application and/or could be solved easily by customizing. There is no guarantee for these estimations: Ranging from “very dynamic” (legal changes more than 6 times per year) to “stable” (legal changes less than once a year).

\(^{(3)}\) **Interpretation of Law Text** - Individual appraisal by country representative of SAP Globalization Services as to ease or difficulty of interpreting the law. There is no guarantee for these appraisals: Ranging from “very difficult” (Expertise of third-party auditors is a must) to “very easy” (very easy to understand the law).

\(^{(4)}\) **Language Acceptance** - Experience by SAP. Do end users accept only the official languages or is English accepted, too? E.g. warehouse staff might not speak English.
Saudi Arabia Requirements: Insights

Globalization for SAP

This section will give you an overview of Globalization Services for SAP Middle East and North Africa
There are 3 areas where Globalization Services offers support to SAP Middle East and North Africa customers: Internationalization, Localization and Translation.

The first is Internationalization,
- It provides the technical environment to operate globally.
- The SAP system supports many languages and currencies and different time zones.
- The calendars support both Gregorian and Hijri formats. The Hijri calendar is an Islamic calendar that depicts the duration of each month based on the lunar eclipse.
The second topic relates to Localization.

- Globalization Services provides functionality meeting the market and legal requirements or provides statutory reports for the Middle East and North Africa regions.
- For Saudi Arabia several features have been developed in order to meet local requirements for both Financial Accounting and Human Capital Management.
Finally in Translation,

- The entire User Interface of the SAP solution as well as reports and forms are translated into Arabic and Right to Left is enabled, too.
- This is important since many government departments require reports and forms to be provided in Arabic.
- All Local Product Managers are Arabic speakers, thus customer communication about latest features or roll-in of customer needs can be handled smoothly.
Saudi Arabia Requirements: Insights

Financial Details Snapshot

Let's have a look at the Saudi Arabian requirements. We will dive deeper into the financial part of the Saudi Arabia Country Version.
Our first topic is the financial reporting framework in Saudi Arabia:

- The banking and insurance regulators require all Saudi Arabian banks and insurance companies whose shares are listed on the Saudi Stock Exchange to publish financial statements in conformity with IFRS.

- All other listed companies in Saudi Arabia, as well as unlisted companies, must follow accounting standards generally accepted in Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants (SOCPA). The SOCPA was created by Royal Decree in 1992. It operates under the supervision of the Ministry of Commerce.

- The SOCPA has approved an IFRS transition plan that will require listed entities to report using the "national standards that are closely converged with full IFRSs." Additionally, unlisted entities will be required to report under IFRS for SMEs as adopted in Saudi Arabia.

- The fiscal year in Saudi Arabia runs from January to December for both Private and Public sector, however; the private entities commonly use the Gregorian calendar, while the Public Sector entities are using the Hijri calendar only.

- The reporting to Government takes place in the Arabic language.
The next topic is “Zakat and Tax Solution”

**Zakat**: All Saudi Arabian and Gulf Cooperation Council (GCC) citizens and corporations who conduct business in Saudi Arabia, are subject to pay Zakat at the rate of 2.5%. This 2.5% is based on capital, profits and gains that fall on companies which are subject to Zakat under the terms of the legal provisions. You can use Zakat the Declaration Report to prepare year-end Zakat declaration statements in the format required by the Department of Zakat and Income Tax.

**Income Tax**: Corporate income tax is levied against foreign companies engaged in commercial activities in the country, either through direct ownership or as shareholders or partners of Saudi Arabia and GCC companies. You use the Income Tax Declaration Report to generate an annual declaration of taxable income in accordance with the legal requirements of Saudi Arabia.

There are 3 Tax Rates, which are:
- **Corporate income tax rate** is 20% of taxable income
- **Natural Gas investment activities** is 30%.
- **Oil and other hydrocarbons** is 85%.

**Enclosures**, both Zakat and Income Tax Declaration needs to be supported by the relevant enclosures. There are 13 schedules as per Department of Zakat and Income Tax regulations.

For **Withholding Tax**, non-residents who do not have a legal registration or a permanent establishment in Saudi Arabia are subject to withholding tax on their income, derived from a source in Saudi Arabia. Companies in Saudi Arabia should notify the Department of Zakat and Income Tax about all tax that they withhold on payments to a nonresident.

Each time you make a payment to the recipient, you have to fill out the form and submit it to the Department of Zakat and Income Tax within the first ten days of the following month. Companies can issue the Withholding Tax (WHT) certificate to the non resident vendors to show the details of the tax amount withheld from them. This certificate is issued only on request.

For more information please refer to the listed SAP Notes
The next topic is “Vendors Certificates Management”

Several certificates have to be obtained by vendors in Saudi Arabia from the government as a prerequisite for doing business in Saudi Arabia. They are required to store this information related to these certificates together with the vendor master record. The vendor certificates functionality enables the maintenance of information related to existing vendor certificates in the vendor master along with information related to its validity.

An example for a legally required certificate in Saudi Arabia is the Commercial Registration Certificate. All merchants that have 100,000 Saudi Riyals in capital are legally required to register with the Commercial Register Office and are issued a commercial registration certificate with a Commercial Registration Number (CRN). These certificates are only valid for a limited time and must be renewed periodically. Similarly, there are other certificates like the Zakat certificate and the GOSI certificate which must be obtained by vendors and the certificate details need to be captured in the vendor master record.

For more information please refer to the link service.sap.com/~sapidb/011000358700000111932014E/KSA_certificates_sol_guide.pdf and the SAP Note 1865641.
The next topic is “Post-dated check”

- A post-dated check is a check that contains a maturity date in the future.

- Unlike bills of exchange or promissory notes, postdated checks normally cannot be endorsed. Typically, companies keep them until the maturity date.

- In SAP ERP, postdated checks are processed using the bill of exchange functions.

SAP Note 1391059

- To process checks, you can use the Bills of Exchange solution originally developed for Turkey.

- Companies in Saudi Arabia use this solution instead of the generic Checks solution or the generic Bills of Exchange solution.

- The generic Checks solution, for example, cannot handle postdated checks. The generic Bills of Exchange solution, on the other hand, does not allow you to record preprinted check numbers, and does not allow you to process multiple postdated checks simultaneously.

- For more information please refer to the SAP Note.
Now we take a look into “Maintaining of Arabic Books & Records and Primary Reports”

This requirement has been issued by the Ministry of Commerce and Industry (MOCI) and reinforced by Royal Decree under the Commercial Books Regulations

All business entities with a capital exceeding 100,000 Saudi Riyals must maintain the Journal (primary book of entry), General ledger and Inventory book in Arabic and must keep them in Saudi Arabia or provide remote access if the records are maintained centrally on a computer system outside Saudi Arabia.

This is required to be attested quarterly by a licensed accountant.

An annual attestation report confirms that the audited financial statements have been prepared from the underlying Arabic accounting books and records.

You have to maintain the following books of accounts in Arabic:

- Journal (primary book of entry)
- General ledger
- Inventory book

For more information please refer to the SAP Note 1979562.
The next topic is “Wages Protection System”

- The wage protection system (WPS) is a government policy in Saudi Arabia through which employers disclose employee and salary information to the Ministry of Labor. This disclosure ensures that employees are paid according to statutory requirements.

- As per Saudi Arabia Ministry of Labor (MOL) requirements, all companies in Saudi Arabia with 3,000 or more registered employees and all private schools, regardless of the number of employees, are required to implement the Saudi Arabia Wage Protection System program.

- Once the prerequisites for the Wage Protection System are in place the payroll program can be executed.

- The Preliminary DME (Data Medium Exchange) program will then be executed and this will update the finance tables and the WPS Form.

For more information please refer to these SAP Notes.
Now let us move to the localization part related to HR and Payroll
We will start talking about localization made in the Personal Administration area.

The localization under this area is covering mainly the following 2 categories: Country specific fields and Personal Action

**Country specific fields** have been added in different infotypes as follows:

- **Persona Data** like Full Arabic Name, Sponsor ID, Legal Profession, Home Airport, Boarder Entry No. and Date (Hijri)
- **Personal IDs** like National ID, Iqama Number, Exit/Re-Entry Visa and Labor Card
- **Leave Passage** like Tickets Class and No. of Tickets for Employee and Dependents
- **Social Insurance** like Contribution Start Date, Social Insurance Authority (GOSI or GCC), and Social Insurance Number
- **Visa Management** like tracking for requested visa quotas, breaking it down to blocks and assign agents.
- **Others** like IBAN generation in Bank Info and Address details

**Personal Actions:**
- Actions templates for Hiring, Termination, Organization Re-Assignment, Rehiring, Promotion
- All actions are also available as HR Processes based on Roadmap Forms

**Personal Action** templates are also available for Hiring, Termination, Organization Re-Assignment, Rehiring and Promotion
- Please note that all actions are now available as HR Processes based on Roadmap Forms (to learn more, please read about HR Renewal 2.0)
The second area that has been localized is payroll.

In payroll SAP has localized the following features:

- Standard wage types defined as per Saudi Arabian norms such as: Basic pay, Housing allowance, Transportation allowance
- End of service calculation per labor law including provisioning calculation
- Overtime calculation
- Net deductions and Arrears
- Social insurance contribution deduction calculation for Saudi Arabian and other GCC nationals
- Off-cycle payroll, including for advance leave payments, including all recovery options and scenarios
- Violations and sanctions related policy like recording violations, tracking occurrences, and applying sanctions through Payroll
- WPS file generation based on MOL format
Now let us move to the third area - Time Management:

Regarding Absences, we have focused on localizing 3 main types of leaves, which are Annual, Sick and Maternity Leave. However we have delivered other absence types as well, such as Hijri Leave, Work Accident, etc.

In general a new functionality has been delivered which is “Leave Conditions Check” that can help in setting validation rules for any absence type in general.

Regarding Annual Leave, by default accruals starts from probation period end and provisioning gets calculated every month based on accruals and usage.

Regarding Sick Leave, Absence distribution has predefined rules, such as paid, half paid and unpaid. Please note that the distribution will always be based on sickness year where one year cycle starting from first day of sickness recorded on the system.

Regarding Maternity Leave, the payment is based on 2 factors: seniority and at the same time the annual leave days taken in the same year.

Another functionality has also been delivered to cover the contractual part related to tickets entitlement for the employee and his dependents having the following features:

- Flight tickets provisioning based on ticket fare
- Ticket fare as per class and destination to home airport
- Flight tickets value can be issued or encashed
Now we have reached the last part which has been subject to localization - the reporting.

Some key reports and forms have been delivered such as:

- About 13 legal Forms used for reporting to GOSI and Labor Office
- Remuneration Statement used for payroll slip printing
- Document Expiry report to monitor critical documents before they get expired like residence visa and labor card
- Nitaqat program to monitor percentage of employed Saudis against no. of expats per Nitaqat policy
Recommendations and Additional Information

Now let us give us some recommendations and additional information.
Please keep in mind the following recommendations for the Saudi Arabia Country Version:

- First and most important, the Saudi Arabia Country Version is not a “do it yourself“ - solution. With the level of complexity involved and the complex regulatory framework, it is recommended to have experts onboard from the beginning.
- There is definitely some expert knowledge required on global templates.
- We strongly recommend that you upgrade to the minimum support package level for the Saudi Arabia Country Version.
- User training is critical for a successful Saudi Arabia Country Version implementation.
Also we recommend close contact with the SIG MENA User group.

Customer focus has always been a key to SAP’s success. The Special Interest Group for Middle East and North Africa, takes it to the next level by providing customers a platform to participate in the SAP development process.

SUGMENA is a collaboration and feedback channel, and a platform for sharing best practices and information. In addition SUGMENA serves as a channel for the Middle East and North Africa team to collaborate closely with customers. There are focus influence programs form Middle East and North Africa localization topics where SAP customers share knowledge and best practices.
Additional Information

SAP standard documentation (SAP Library Documentation for Saudi Arabia)
help.sap.com

Country page in SAP Service Marketplace
https://service.sap.com/Globalization → Country Information → Middle East and Africa

Legal change planning information
https://service.sap.com/Globalization → Country Information → Legal Changes

Release supported
Standard in all releases in mainstream maintenance

Customer service
XX-CSC-SA for FI problems
PY-SA for HR/Payroll problems
PA-PA-SA for HR/Personnel Administration problems

You can find additional information at the sites listed here.
You should now be able to

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- Outline Saudi Arabian Localization features in SAP ERP
- Explain Saudi Arabian Localization features in Finance
- Explain Saudi Arabian Localization features in Human Capital Management
- Discuss solution support and the rollout strategy for Saudi Arabia
Here is some extra information that may help with the implementation of the Saudi Arabia country version
Thank you very much!

For questions, please contact globalization@sap.com.
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