

The Reality of Sharia Auditing in Islamic Financial Windows within Algerian Conventional Banks: following the enactment of Regulation N° 02-20

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Abstract:

This study highlights the reality of Sharia auditing as an independent and objective mechanism within contemporary governance frameworks in Islamic financial institutions. It examines the positioning of Sharia auditing within Islamic windows of conventional banks and explores the mechanisms required for its effective implementation, focusing on ensuring Sharia compliance. Drawing on a critical review of the literature and selected banking experiences, the study reveals a growing emphasis on Sharia auditing in conventional banks, driven by the need to increase transparency and reinforce the legitimacy of financial products. Following the enactment of Regulation N° 02-20 governing Islamic banking in Algeria, notable progress has been achieved in structuring Sharia auditing practices. The study underscores that strengthening legal provisions, institutional support, and professional capacity is essential for enhancing the credibility, transparency, and sustainability of Islamic financial operations within conventional banking systems in Algeria.

Keywords: Sharia auditing; Islamic Financial windows; Regulation N° 02-20

Jel Classification Codes : XXX ; XXX ; XXX.

Résumé:

*Cette étude met en évidence la réalité de l'audit de charia en tant que mécanisme indépendant et objectif au sein des cadres contemporains de gouvernance dans les institutions financières islamiques. Elle examine le positionnement de l'audit charia au sein des fenêtres islamiques des banques conventionnelles et analyse les mécanismes nécessaires à sa mise en œuvre efficace, en mettant l'accent sur la conformité aux principes de la charia. S'appuyant sur une revue critique de la littérature ainsi que sur certaines expériences bancaires sélectionnées, l'étude révèle un intérêt croissant pour l'audit charia dans les banques conventionnelles, motivé par la nécessité de renforcer la transparence et la légitimité des produits financiers. À la suite de la promulgation du **Règlement N° 02-20** régissant la finance islamique en Algérie, des avancées significatives ont été enregistrées dans la structuration des pratiques d'audit charia. L'étude souligne que le renforcement des dispositions juridiques, de l'appui institutionnel et des compétences professionnelles constitue une condition essentielle pour améliorer la crédibilité, la transparence et la durabilité des opérations financières islamiques au sein du système bancaire conventionnel en Algérie.*

Mots clés: Audit charia ; Fenêtres financières islamiques ; Règlement n° 02-20

Jel Classification Codes : L53 ; L78 ; M00.

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I. Introduction

Auditing, in its broadest conception, represents a critical advisory function that furnishes management with robust instruments to enhance governance practices and optimize operational processes. It enables institutions to rely on accurate, credible, and timely information as a foundation for strategic decision-making across diverse areas of activity. This function is guided by a coherent set of standards that delineate its scope and provide auditors with a structured framework to ensure rigor, consistency, and effectiveness in execution. Within the spectrum of auditing practices, Sharia auditing occupies a distinctive niche as a specialized discipline characterized by unique methodological and epistemological foundations. Its primary objective is to ensure that financial institutions operate in strict accordance with the principles of Islamic law. Sharia auditing is conducted across multiple, interrelated dimensions, most notably: adherence to Sharia compliance requirements, the effectiveness of implementation, and a strategic dimension that informs and supports decision-making processes. These dimensions are governed by precise standards that regulate the practice of Sharia auditing, encompassing auditor qualifications, evidentiary criteria, and field verification procedures.

In this regard, the significance of Sharia auditing is particularly pronounced in overseeing and regulating financial operations conducted through Islamic windows within conventional banking institutions, thereby ensuring their alignment with Sharia principles. Against this backdrop, the present study seeks to address the following central research question: **What is the current state of Sharia auditing in Islamic financial windows within conventional banks in Algeria, and what mechanisms are required to enhance its effective implementation?** To this end, the study is organized around three principal axes:

- ❖ A conceptual framework of Sharia auditing.
- ❖ The Islamic Windows of Conventional Banks under Regulation N° 02-20
- ❖ Sharia Auditing in Islamic Windows of Conventional Banks.
- ❖ Current Status of Sharia Auditing in Selected Islamic Windows of Conventional Algerian Banks.

II. Conceptual Framework of Sharia Auditing:

This section seeks to articulate the conceptual underpinnings of Sharia auditing as follows:

II.1 Definition of Sharia Auditing:

Sharia auditing can be defined as *“a systematic and independent process involving the examination and evaluation of an institution’s activities, operations,*

and financial transactions, with the aim of ensuring their conformity with the principles and rulings of Islamic law, as established through relevant fatwas. In carrying out this function, the Sharia auditor employs specialized professional methodologies and techniques to assess the accuracy of implementation, identify potential deviations, and provide informed reports to the relevant authorities, thereby facilitating corrective actions and promoting continuous institutional improvement” (Samer Mazhar Qantakji, 2010, p. 280).

In the same context, (Hamza Abdel Karim Hammad, 2014, p. 128) conceptualizes Sharia auditing as *“the field-based supervisory function that embodies the distinctive identity of the bank. It is primarily concerned with verifying the extent to which the bank’s operations conform to the fatwas issued by the Sharia Supervisory Board, under the guidance of the Sharia controller. Sharia auditing entails the periodic review of the bank’s activities to ensure that employees adhere to established procedures, recommendations, and Sharia rulings. It also involves confirming that all contractual arrangements entered into by the bank have been duly approved by the Sharia Supervisory Board. Furthermore, the Sharia auditor is required to submit regular reports to the Sharia controller for presentation to the fatwa authority, in order to facilitate appropriate decisions in light of prevailing circumstances.”*

Based on the two definitions above, it is evident that Sharia auditing constitutes both an assurance and advisory activity characterized by objectivity and independence. Its primary purpose is to monitor and enhance the performance of Islamic financial institutions by examining their financial activities to ensure compliance with Sharia principles, verifying that financial products are implemented in accordance with Sharia standards, and providing recommendations aimed at achieving the highest levels of Sharia compliance.

II.2 Significance of Sharia Auditing:

Sharia auditing occupies a central role within Islamic financial institutions due to its substantial contributions, particularly in providing Sharia-compliant assurance and advisory services that support the achievement of organizational objectives through a structured and methodical approach. As noted by (Abdullah Atiyah, 2015, p. 27), Sharia auditing constitutes a foundational pillar of the Islamic banking system, functioning as a protective mechanism against both internal and external risks. The robustness and effectiveness of Sharia auditing directly enhance the stability of Islamic financial institutions, thereby strengthening the resilience of national and global economies. This reinforced stability, in turn, bolsters the confidence of investors—whether shareholders or

depositors—as well as regulatory authorities, a factor of heightened importance in the wake of global financial crises.

In addition, Sharia auditing reinforces the operational effectiveness of the Sharia Supervisory Board within Islamic financial institutions. Through systematic review and oversight, auditing ensures the proper organization of the board's activities, the quality of its performance, and the adherence of institutional practices to Sharia standards, thereby safeguarding the institution against potential Sharia Non-compliance (Riyad Mansour Al-Khalifi, 2004, p. 6).

II.3 Responsibilities of the Sharia Auditor in Islamic Financial Institutions:

The responsibilities of the Sharia auditor in Islamic financial institutions can be summarized as follows (Mohamed Al-Fateh Bashir Al-Maghribi, 2016, p. 216):

- **Examination and evaluation:** Assessing the extent to which the financial institution complies with the principles and rulings of Islamic law, in accordance with the fatwas and directives issued by the Sharia Supervisory Board.
- **Monitoring compliance:** Following up on all decisions and instructions issued by the Sharia authority.
- **Consultation on findings:** Discussing observations and issues identified by the internal control unit with the relevant bank departments prior to the issuance of the final audit report.
- **Reporting:** Preparing periodic reports—quarterly or as required by regulations—detailing the results of monitoring and auditing the institution's operations, submitting these reports to the relevant authorities, and providing copies to the Sharia Supervisory Board.
- **Oversight of implementation:** Ensuring that the institution's departments adhere to the directives, fatwas, and decisions of the Sharia authority, in addition to complying with instructions from other regulatory bodies.

This structured framework underscores the auditor's role Not only in verification but also in ensuring continuous alignment of institutional operations with Sharia compliance standards.

II.4 Internal and External Sharia Auditing

➤ **Internal Sharia Auditing** is defined as “*a functional unit within an Islamic financial institution tasked with ensuring that the institution fulfills its obligations to implement Sharia principles and rulings, as determined by its internal Sharia Supervisory Board*” (Mutlaq Jasser, 2009, p. 4). As Noted by

(Alaa Abdelwahid DhN°un Taha, 2016, p. 515), internal Sharia auditing constitutes a fundamental component of the institution's internal Sharia governance framework. It typically takes the form of an administrative unit or department within the organizational structure, staffed by dedicated internal Sharia auditors. The principal objective of this unit is to assist management in evaluating the performance of the internal Sharia control system, ensuring its efficiency, effectiveness, and compliance with the institution's Sharia obligations.

➤ **External Sharia Auditing**, in contrast, is defined as “an audit conducted by an external Sharia auditor with the purpose of assisting the Sharia Supervisory Board in forming an independent opinion regarding the institution's compliance with Islamic law” (Mohamed Awad Al-Fuzi, 2010, p. 272).

The distinction between internal and external Sharia auditing primarily hinges on the organizational reporting structure. Any Sharia auditing function that operates within and reports to the internal hierarchy of the institution is considered internal auditing, whereas a Sharia auditing function that reports directly to the institution's general assembly is regarded as external auditing (Abdelbari Mishaal, 2011, p. 56).

This distinction underscores the complementary roles of internal and external Sharia auditing in ensuring robust Sharia compliance, combining continuous internal oversight with independent external verification to safeguard institutional integrity and accountability.

II. 5 Factors for the Success of Sharia Auditing

Achieving success in the Sharia auditing process within Islamic financial institutions is essential for attaining its intended objectives, such as identifying errors and their underlying causes, highlighting deficiencies, and providing effective recommendations to enhance institutional performance. The effectiveness of Sharia auditing depends on a combination of factors related to the capabilities of auditors, the execution of their tasks, and other influential elements (Hamza Ouassaa, 2018, p. 52).

First: Auditor-Related Conditions

- **Education and Training:** Auditors must possess both foundational and ongoing specialized training in Sharia auditing.
- **Independence and Objectivity:** Auditors should perform their duties with complete impartiality, free from external influences.

- **Professional Skills:** Auditors should demonstrate proficiency in teamwork, effective communication, precise observation, sound analytical reasoning, and evidence-based judgment.
- **Specialized Knowledge:** Auditors must have a strong understanding of Sharia rulings related to financial transactions, complemented by the necessary accounting, auditing, and financial skills.

Second: Task-Related Conditions

- **Rigor in Execution:** Ensuring that audit tasks are performed accurately, efficiently, and within the designated timeframes.
- **Use of Reliable Tools:** Employing approved and dependable methods and instruments throughout the auditing process.
- **Confidentiality and Information Security:** Maintaining the confidentiality of institutional information and refraining from disclosing operational procedures, plans, or strategic data.

Third: Additional Conditions

- **Trust and Cooperation:** Fostering mutual trust among all stakeholders and promoting effective collaboration between the Sharia auditor and the audited entity.
- **Prudence in Handling Differences:** Resolving disputes or differences by applying principles of Islamic jurisprudence (fiqh al-ikhtilaf) and adhering to proper etiquette in dialogue and discussion.

II. 6 Key Standards Required for Sharia Auditors

Sharia auditing standards are founded on a set of essential principles that ensure financial activities and operational processes align with Islamic law, while fostering trust and transparency within Islamic financial institutions. The most prominent of these standards include (Hamza Ouassaa, 2018):

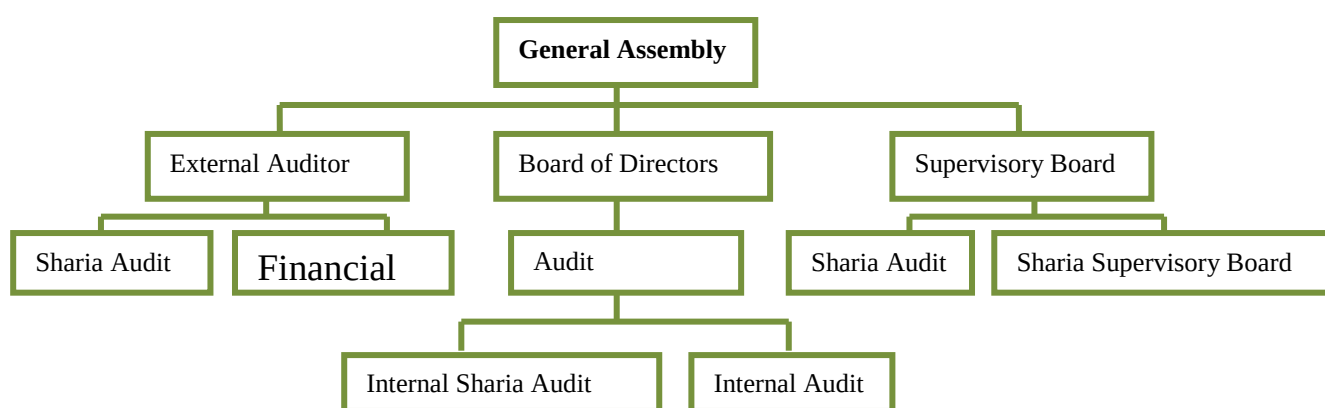
- Independence and Objectivity;
- Professional Competence and Sharia Knowledge;
- Adherence to Sharia Standards and References;
- Transparency and Objectivity in Reporting;
- Confidentiality and Privacy;
- Documentation and Follow-Up.

II. 7 Sharia Auditing at the Level of Islamic Windows in Commercial Banks in Accordance with AAOIFI Standards

In light of the rapid development of the Islamic banking sector and the expanding scope of financial products and services within banks, the establishment of

Sharia supervisory and auditing bodies has become an imperative necessity to ensure that all operations comply with the principles of Islamic law. These bodies function as a vital link between jurisprudential standards and financial regulations, thereby enhancing trust and transparency in banking transactions. Furthermore, the scope of oversight exercised by these bodies can be clarified within the organizational structures of banks through a model that is consistent with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as illustrated below:

Figure (01): A typical organizational structure model for Islamic financial institutions in accordance with AAOIFI standards, illustrating the main departments and their interrelationships.



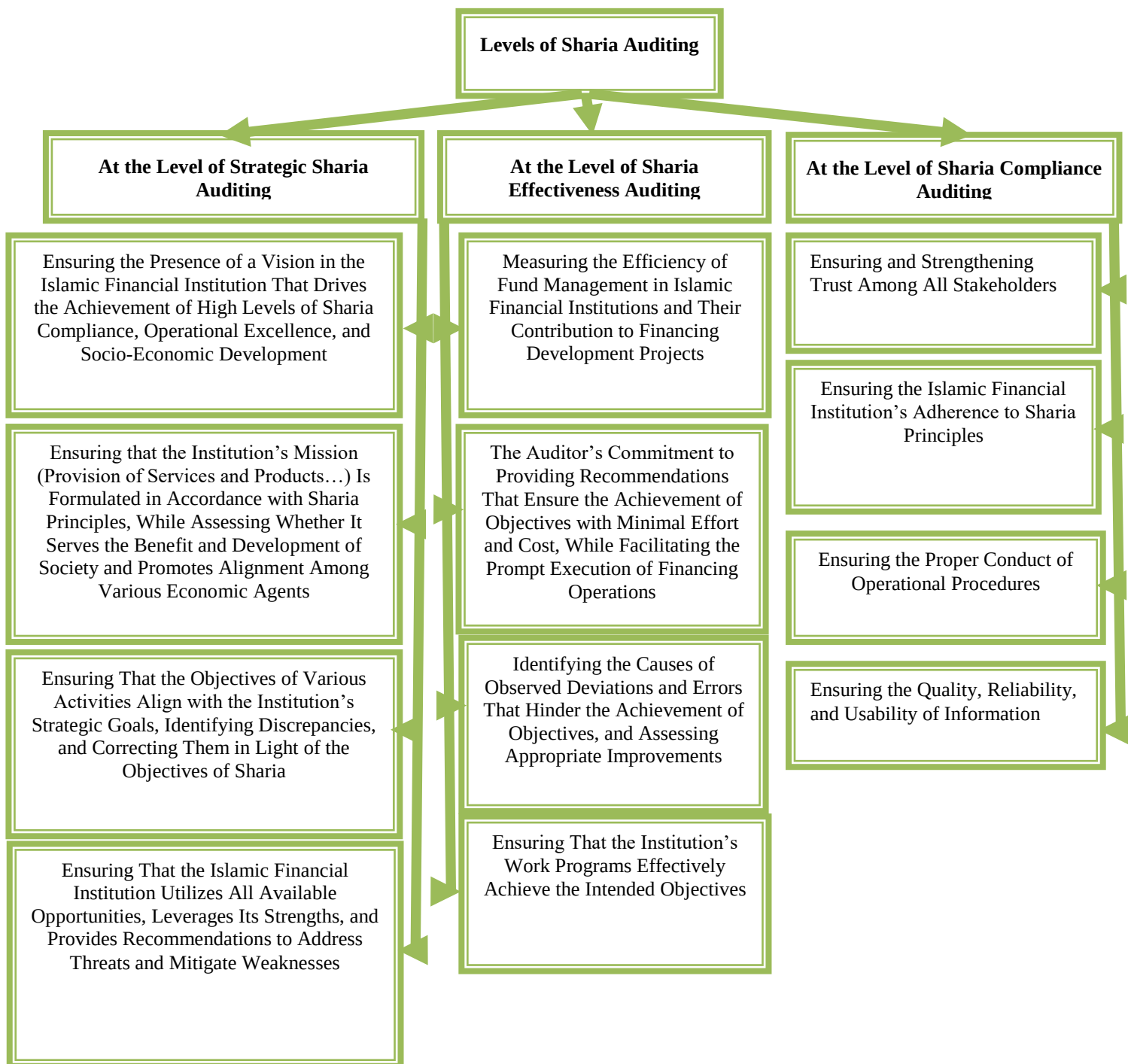
Source : OUASSAA Hamza, (2025)

The significance of this AAOIFI-compliant structure lies in its ability to enhance the credibility of Islamic financial institutions. It ensures adherence to Shariah regulations through the presence of a Sharia Supervisory Board, as well as internal and external Sharia audits. Furthermore, it promotes transparency and accountability via the Audit Committee and financial and statutory audits, while clearly separating executive and supervisory powers to guarantee the independence of Sharia supervision and financial oversight.

II. 8 Levels of Sharia Auditing

The primary functions of Sharia auditing are structured across three key levels: Sharia Compliance Auditing, Effectiveness Auditing, and Strategic Sharia Auditing. Each level is interdependent, with the Sharia auditor performing specific tasks tailored to the requirements of the Islamic financial institution. These levels are particularly critical when applied to various financing structures aimed at promoting social development and safeguarding the Islamic financial sector from any deviations that could undermine adherence to Sharia principles.

Figure 02: Levels of Sharia Auditing Tasks



Source: Adapted from studies by Riyad Mansour Al-Khalifi (2004), Samer Mazhar Qantakji (2010), Riyad Al-Khalifi (2011), Alaa Abdelwahid Dhnoun Taha (2016), Al-Noubani et al. (2016), and Hamza Ouassaa (2018).

III. The Islamic Windows of Conventional Banks Regulation N° 02-20

To ensure full compliance with Sharia principles, Islamic windows within conventional banks must be subject to rigorous Sharia auditing, guaranteeing that all customer transactions and financial products adhere to Islamic law. Sharia auditing N°t only enhances the credibility of these banking services but also ensures strict compliance with Sharia standards. It involves continuous oversight by independent Sharia authorities to safeguard the integrity, transparency, and ethical conduct of all operations. This section first clarifies the concept of Islamic windows and then examines the mechanisms for implementing Sharia auditing within conventional banks.

III.1 Concept of Islamic Windows in Conventional Banks

Definition: Islamic windows in conventional banks represent a manifestation of the dual banking system offered by these institutions, wherein both interest-based and Sharia-compliant banking services are provided concurrently (Khrais, 2014, p. 143). Essentially, Islamic windows are autoN°mous departments or units within conventional banks that deliver financial services in accordance with Sharia principles. Their primary objective is to cater to clients seeking banking services aligned with Islamic law without the necessity of establishing fully independent Islamic banks.

III.2 The Islamic Windows under Regulation N° 02-20

The Regulation N° 02-20 (which superseded Regulation N° 02-18 concerning participatory Islamic banking), dated March 15, 2020, defines the scope of Islamic banking operations and the rules governing their implementation by financial institutions (Official Journal of Algeria, 2020). According to this regulation, Islamic banking windows are specialized units within a bank or financial institution exclusively dedicated to providing Sharia-compliant products and services.

III.3 Motivations for Conventional Banks to Establish Islamic Windows

Conventional banks are driven to create Islamic windows by a combination of market demands and competitive considerations. The primary motivations include:

- ***Compliance with Regulatory Frameworks:*** Evolving legislation and regulatory guidelines necessitate support for Islamic financial products, prompting conventional banks to create specialized units to implement these standards.
- ***Maximizing Profitability:*** Conventional banks seek to attract additional Islamic capital to capture a larger share of the capital market (Abdelrahman Rawan, 2021, p. 166).

- **Enhancing Trust and Credibility:** Adherence to Sharia principles increases the confidence of clients and investors, as Islamic financial services are perceived to be more transparent and ethically aligned.
- **Meeting Customer Needs:** There is a growing demand from clients seeking banking services compliant with Sharia principles without resorting to fully independent Islamic banks.
- **Diversifying Products and Services:** Establishing Islamic windows allows conventional banks to expand their service offerings, enhancing attractiveness and providing a competitive edge in the banking sector.
- **Supporting EcoN°mic and Social Development:** Islamic windows contribute to sustainable development projects by providing financing solutions consistent with social justice principles, benefiting the national ecoN°my.

Collectively, these factors constitute the main drivers for conventional banks to establish Islamic windows, aiming to balance profitability, Sharia compliance, and the diverse needs of clients.

III.4 Principle of Independence of Islamic Windows from Interest-Based Activities in Conventional Banks

To avoid overlap between interest-based and Islamic banking activities and to ensure Sharia compliance while enhancing operational efficiency, several key principles must be observed:

- **Administrative Independence:** Islamic windows must have a management structure independent of interest-based operations, including dedicated teams, operational decision-making, and administration overseeing Sharia-compliant financial activities.
- **Financial Independence:** Financing operations within Islamic windows should be conducted separately from interest-based activities. This includes maintaining dedicated accounts, independent accounting records, and preventing the commingling of funds.
- **Legal Independence:** Islamic windows must comply with Sharia rules and operate under the oversight of Sharia supervisory bodies to ensure that all transactions adhere to Islamic law.
- **Independence in Products and Services:** Services offered through Islamic windows should be distinct from interest-based activities, such as Murabaha, Musharaka, Mudaraba, Ijarah, and other Sharia-compliant contracts.

IV. Sharia Auditing in Islamic Windows of Conventional Banks

IV.1 Importance of Sharia Auditing in Islamic Windows

The presence of Sharia supervision within any banking or financial institution—particularly Islamic institutions—provides credibility, legitimacy, and operational strength. It is noteworthy that all Islamic banks and financial institutions require, within their internal regulations, that all transactions comply with Sharia principles (Ben Hadou, 2021, pp. 150–151). Within this framework, three key aspects of Sharia auditing in Islamic windows can be highlighted:

- ***Compliance with Sharia Principles:*** The primary objective of Sharia auditing is to ensure that all financial transactions conducted through Islamic windows adhere strictly to Sharia provisions, such as the prohibition of Riba (interest), Gharar (excessive uncertainty), and Maisir (gambling).
- ***Enhancing Customer Confidence:*** Sharia auditing is fundamental in building trust between the bank and clients seeking services aligned with religious values. The presence of a supervisory Sharia board ensures transparency and compliance, thereby reinforcing the credibility of the bank.
- ***Achieving Competitive Excellence:*** By operating in accordance with Sharia principles and implementing rigorous Sharia auditing, a bank differentiates itself from conventional competitors, gaining a distinct advantage in markets with increasing demand for Islamic financial products.

IV.2 Mechanisms for Implementing Sharia Auditing in Islamic Windows of Conventional Banks

The effective implementation of Sharia auditing in the Islamic windows of conventional banks requires coordinated efforts at the organizational level, ranging from the establishment of independent Sharia boards to the development of robust mechanisms for reviewing products and financial transactions. When applied systematically, these mechanisms ensure that the operations of Islamic windows comply with Sharia principles, enhancing the bank's reputation and strengthening customer confidence. Proper implementation of Sharia auditing demonstrates the bank's commitment to Sharia values and increases its potential for success and growth in the expanding Islamic banking market. The following are key mechanisms for effective Sharia auditing:

- ***Establishment of an Independent Sharia Board:*** An independent Sharia board composed of scholars specialized in Islamic finance and economics

should be established. This board is responsible for reviewing all financial products and services to ensure their compliance with Sharia principles (Benaish Sofiane & Mohamed Farhi, 2024, p. 62).

- ***Appointment of an Internal Sharia Auditor:*** The presence of an internal Sharia auditor is crucial for reviewing daily operations and ensuring compliance with Sharia standards. The auditor must be granted full independence to guarantee the integrity and objectivity of their work (Benaish Sofiane & Mohamed Farhi, 2024, p. 62).
- ***Development of a Sharia Governance Framework:*** A comprehensive Sharia governance framework should define the roles and responsibilities of all stakeholders, including the Board of Directors, executive management, Sharia committees, compliance units, risk management, and internal audit departments. This framework ensures that all banking transactions align with Sharia principles.
- ***Employee Training and Awareness Programs:*** Continuous training programs should be provided to staff working in Islamic windows to enhance their understanding of Sharia rules related to financial transactions. Such programs promote adherence to Sharia standards and strengthen institutional compliance.
- ***Activation of Internal Controls:*** Effective internal control mechanisms should be implemented to monitor daily operations within Islamic windows and ensure adherence to Sharia standards. This includes the use of modern tools and technologies for transaction monitoring.
- ***Preparation of Periodic Sharia Reports:*** Regular Sharia reports should be prepared to evaluate the compliance of Islamic windows with Sharia standards. These reports must include recommendations for improvement, promoting transparency, accountability, and continuous enhancement of practices.
- ***Collaboration with Regulatory and Industry Bodies:*** Banks should collaborate with local and international regulatory authorities and Islamic finance industry bodies to ensure that banking operations comply with established standards and to facilitate the exchange of expertise and best practices.

By implementing these mechanisms, conventional banks can establish effective Sharia auditing within their Islamic windows, ensuring the provision of Sharia-compliant banking services while reinforcing customer trust and institutional credibility.

IV.3 Challenges in Implementing Sharia Auditing in Conventional Banks

Conventional banks seeking to implement Sharia auditing within their Islamic windows face numerous challenges that may impede the effectiveness of such auditing. These challenges span organizational, jurisprudential, and administrative dimensions and can be summarized as follows:

- **Regulatory Challenges:** Legislative or regulatory constraints in certain markets may hinder the full application of Sharia auditing mechanisms, requiring banks to adapt to these limitations.
- **Difficulty in Separating Islamic and Conventional Activities:** Some banks may struggle to fully segregate Islamic and interest-based operations, particularly in institutions lacking a legal and organizational framework that supports such separation.
- **Jurisprudential Differences:** Divergences among Sharia scholars regarding specific issues may arise, potentially delaying or complicating the issuance of Sharia-compliant decisions.
- **Lack of Legal Framework:** The absence of clear legislation supporting Islamic banking in some countries limits the development of Islamic windows within conventional banks, impeding their effective implementation and oversight.
- **Shortage of Specialized Personnel:** There is a notable scarcity of professionals skilled in Sharia jurisprudence and Islamic finance, which can negatively affect the quality and effectiveness of Sharia auditing (Ben Kabo Mohamed Al-Amin & Menad Khadija, 2022, p. 557).
- **Rapid Development of Financial Products:** Continuous innovation in the financial sector necessitates that Sharia auditors keep pace with increasingly sophisticated products, which may present complex Sharia compliance considerations.

V. Current Status of Sharia Supervision and Auditing in Selected Islamic Windows of Conventional Algerian Banks

Sharia supervision and auditing constitute fundamental elements in ensuring that Islamic windows within conventional Algerian banks comply with the principles of Islamic law.

V.1 Structure for Implementing Sharia Supervision and Auditing in Islamic Windows of Conventional Algerian Banks

The structure of Sharia supervision and auditing in conventional Algerian banks represents a central pillar for ensuring compliance with Sharia standards in the financial transactions offered through Islamic windows. Effective Sharia auditing requires a well-defined organizational structure and coordinated interaction

among all relevant parties to ensure transparency, accountability, and adherence to Islamic principles in financial operations.

Consequently, most Algerian banks operating Islamic windows typically include the following components within their organizational and supervisory framework (OUASSAA Hamza, 2025):

➤ ***Sharia Committee or Supervisory Board of the Bank***

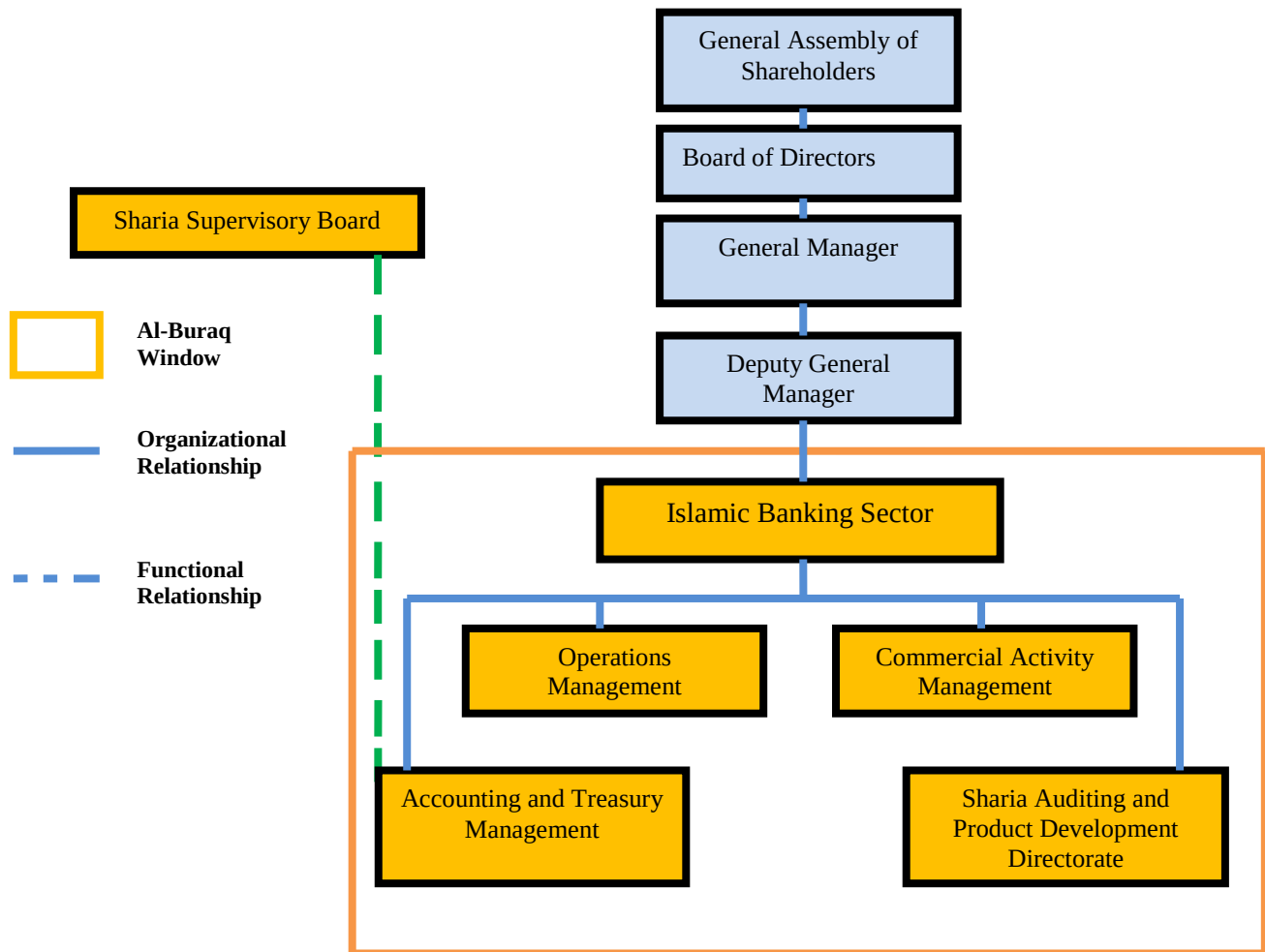
The Sharia Committee is responsible for establishing the Sharia principles and guidelines that the bank must follow to ensure all operations comply with Islamic law. This includes reviewing financial products and services offered through the bank's Islamic windows to ensure their Sharia compliance, as well as issuing Sharia rulings (**fatwas**) regarding various financial transactions. The committee is composed of scholars specializing in Islamic jurisprudence, particularly in financial transactions, usually selected from among renowned authorities in Sharia and Islamic finance.

➤ ***Internal Sharia Auditor***

The role of the internal Sharia auditor involves monitoring the daily activities of Islamic windows, ensuring ongoing compliance with Sharia standards, and examining all financial operations conducted within the windows, such as financing and investment transactions, to verify the absence of prohibited activities like **Riba** (interest) or **Gharar** (excessive uncertainty). The internal auditor works directly with the Sharia Committee and collaborates with various bank departments, including risk management and compliance.

For instance, the “**Al-Buraq**” organizational model at **ABC Bank – Algeria**, which operates an Islamic banking window, exemplifies an innovative structure ensuring the independence of Sharia-compliant activities from conventional banking operations. This structure includes a central management unit to support and coordinate Sharia-compliant operations, alongside dedicated “**Al-Buraq**” Islamic banking counters across the bank's branch network. Additionally, **ABC Bank – Algeria** has obtained Sharia compliance certification for its “**Al-Buraq**” window from the **National Sharia Board for Islamic Financial Industry Fatwas**, reflecting the robustness and credibility of its supervisory framework. The following figure illustrates this organizational model:

Figure (03): "Al-Buraq" Organizational Structure of ABC Bank – Algeria



Source : <https://www.bank-abc.com/ar/CountrySites/Alburag/About/PublishingImages/CentralLevel4-ar.jpg>

N°te: In the organizational structure of the "Al-Buraq" Islamic window, there are two primary types of relationships between administrative units or departments:

- **Organizational Relationship:** Represented by a solid (continuous) line in the structure, this relationship reflects the direct hierarchical chain of command (administrative authority). It implies that a superior manager or official issues orders and instructions, undertakes evaluation, and holds direct accountability over subordinates. For example, the relationship between the General Manager and the Islamic Banking Sector is an organizational one, where the General Manager holds administrative responsibility, provides guidance, monitors performance, and evaluates the sector.
- **Functional Relationship:** Usually depicted by a dashed line, this type of relationship signifies an advisory or indirect supervisory role. The concerned entity does N°t have administrative authority over other departments but provides guidelines, standards, or specialized oversight.

For instance, the Sharia Supervisory Board maintains a functional relationship with other departments: it sets Sharia compliance frameworks and monitors adherence to Islamic standards but does not manage their daily operations nor serves as their direct administrative superior.

➤ **External Sharia Auditor:** The bank may engage independent external Sharia auditors to conduct a comprehensive examination of Sharia compliance and provide reports on the extent to which Sharia standards are applied across all financial activities. External auditors contribute independent observations that can assist the Sharia Supervisory Board in making informed decisions based on the operational realities.

➤ **Sharia Compliance Department:** This department is responsible for ensuring that all procedures and policies related to the Islamic windows align with Sharia principles. It also monitors complaints or violations that may arise in the daily operations of these Islamic windows and takes corrective actions accordingly. The Compliance Department is typically organized within the bank's administrative structure and collaborates closely with the legal and administrative departments. For example, the **Banque Nationale d'Algérie (BNA)**, which operates Islamic windows, implements Sharia supervisory mechanisms that include a dedicated Sharia Supervisory Committee overseeing all financial transactions within the Islamic windows. The Sharia Compliance Department at BNA is tasked with auditing banking operations to ensure their conformity with Sharia. Similarly, the **Banque de l'Agriculture et du Développement Rural (BADR)** relies on Sharia supervision to guarantee that transactions in its Islamic windows comply with Islamic law. BADR maintains a specialized compliance unit responsible for reviewing financial products. In some cases, the compliance function may be integrated within other departments, such as Risk Management or Internal Audit.

➤ **The National Sharia Board for Islamic Finance Fatwa:** The Algerian legislator did not establish a supreme Sharia supervisory authority within the Central Bank to serve as the ultimate judicial body for all Sharia supervisory boards across Islamic banks and branches nationwide. Instead, this role is fulfilled by the **National Sharia Board for Islamic Finance Fatwa**, operating under the supervision of the Supreme Islamic Council (Mohamed Al-Amin Ben Kabo & Menad Khadija, 2022, p. 557).

The establishment of this board was in implementation of Law N° 20-02 dated March 15, 2020, which governs banking operations related to Islamic finance and the regulatory framework for banks and financial institutions, as published in Official Gazette N° 16. The board serves as the primary reference authority

responsible for issuing Sharia fatwas and regulating the Islamic financial sector in Algeria. Its role is to ensure that all financial activities within the country comply with the principles of Islamic law, through its significant advisory and supervisory functions over Islamic banks and Islamic windows within conventional banks. In this context, the role of the National Sharia Board for Islamic Finance Fatwa in Algeria can be summarized as follows:

- The board grants **Sharia compliance certificates** to banks and financial institutions, a function that supports the Bank of Algeria in localizing Islamic banking within the country, especially amid the notable increase in Islamic windows within conventional banks (Sharia compliance auditing). Certificates of compliance are issued to banks and financial institutions, and any product not approved by the board is deemed legally invalid. Consequently, if a bank's product does not receive board approval, the central bank refers it back to the board for review and subsequent determination of its conformity with Islamic financial principles (Board's official website). And the board plays an **advisory role** by providing consultations to banks and financial institutions on developing Sharia-compliant financial products.
- It contributes to the **continuous development of the Islamic finance industry** through participation in studies and research related to Islamic finance, and by formulating policies for Sharia implementation in the financial sector.
- The board promotes **awareness and education** by disseminating Sharia knowledge among employees of banks and Islamic financial institutions in Algeria, organizing workshops, seminars, and training programs aimed at enhancing Islamic financial literacy.
- It collaborates with the **Bank of Algeria and financial authorities** to regulate the legal and legislative environment of the Islamic finance industry in Algeria. Furthermore, it coordinates with international Sharia supervisory bodies and specialized research centers in Islamic finance to ensure adherence to international standards within the industry. And the board also contributes to **dispute resolution** in cases of Sharia-related conflicts between banks and clients or among financial institutions, thereby fostering transparency and trust in the Islamic financial system.

V.2 Challenges Facing Sharia Auditing in Conventional Algerian Banks

Contemporary academic literature indicates that Sharia auditing within Islamic windows of conventional banks in Algeria faces a range of structural and institutional challenges that constrain its effectiveness and efficiency. Foremost among these is the absence of a comprehensive and well-defined legal and regulatory framework, despite the enactment of Regulation N° 02-20, which has led to implementation gaps and a lack of clarity regarding roles and

responsibilities. Moreover, the Sharia audit function suffers from limited independence within the organizational structures of conventional banks, as Sharia auditors are employees of the same institution; consequently, it becomes difficult to disclose irregularities or report deficiencies (Benaicha Sofiane & Mohamed Ferhi, 2024, p. 63), thereby potentially undermining its objectivity and effectiveness. This is further compounded by a N°table shortage of qualified professionals who combine expertise in Islamic jurisprudence with banking and auditing competencies, constituting a fundamental obstacle to the development of this function.

These challenges are further exacerbated by the partial implementation of the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), along with limited disclosure and transparency practices concerning Sharia audit outcomes. Accordingly, enhancing the effectiveness of Sharia auditing in Algeria requires comprehensive reforms, including the strengthening of the legal framework, the reinforcement of institutional independence, the development of professional capacities, and the systematic adoption of international standards, with a view to bolstering the credibility and sustainability of Islamic windows within conventional banking institutions.

VI. Conclusion

The implementation of Sharia auditing, as an independent and impartial third party, within the Islamic windows of conventional banks constitutes a pivotal step toward enhancing the credibility and transparency of the banking system. This study has demonstrated that the success of such an initiative depends on the convergence of several key factors. It is essential to establish sound governance for this sector and to adopt a clear legal and regulatory framework that supports Sharia supervisory bodies in Algeria by integrating them effectively within the existing financial system. Accordingly, this study concludes that:

Research Results

- The supervisory and Sharia auditing system for Islamic windows in conventional banks faces a number of challenges, including weaknesses in the legislative and regulatory framework for Islamic windows, insufficient support from the central bank, a shortage of specialized Sharia auditing personnel, and other challenges related to the members of Sharia supervisory boards.
- The emergence and expansion of Islamic windows indicate the commitment of banks to the legislative and regulatory frameworks in Algeria (such as Decree 02-20 of 2020), reflecting a N°table regulatory development in the field of Islamic banking and strengthening the operational framework of these windows within conventional banks.
- The study revealed a growing interest in Sharia auditing within conventional banks, driven by the urgent need to ensure transparency and legitimacy of financial products. Since the issuance of Decree 02-20 concerning Islamic

banking in Algeria, banks have shown significant improvement in implementing Sharia auditing within their Islamic windows.

Recommendations for Strengthening Shariah Auditing in Islamic Windows of Algerian Conventional Banks

Based on the findings of this study, several recommendations can be proposed to enhance the effectiveness and positive impact of Shariah auditing within Islamic windows:

- ***Legislative intervention by the government:*** The government should develop precise laws and regulations to govern Shariah auditing practices within the financial sector. Clear rules and requirements will facilitate the consistent application of Shariah standards and enhance transparency and credibility within Islamic windows.
- ***Dedicated Shariah Audit Function:*** Integrate a formal Shariah audit unit in all conventional banks with Islamic windows, ensuring auditor expertise, adequate resources, and, if necessary, external Shariah auditing support.
- ***Training and Scientific Activities:*** Intensify regular workshops, seminars, and conferences to update auditors on theoretical and practical developments, enhancing Shariah governance effectiveness.
- ***Standardization of Shariah Compliance:*** Harmonize Shariah standards across conventional banks and full-fledged Islamic banks in Algeria to reduce inconsistencies, strengthen client trust, and ensure adherence to Shariah principles.
- ***Collaboration between Banks:*** Promote cooperation among conventional banks, Islamic banks, and academic research centers to facilitate practical application of Shariah studies, improve performance, and ensure high compliance standards.

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