

THE INTERNAL CONTROL SYSTEM OF BANKS AND FINANCIAL INSTITUTIONS

Under Regulation No. 11-08

جهاز الرقابة الداخلية للبنوك والمؤسسات المالية في ضوء النظام رقم 11-08

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Abstract:

The internal control system of banks and financial institutions constitutes one of the most significant regulatory mechanisms designed to ensure the integrity of financial operations, safeguard institutional assets, and achieve transparency and accuracy in accounting and financial information, while reinforcing compliance with applicable legislative and regulatory provisions.

Regulation No. 11-08 on the Internal Control of Banks and Financial Institutions, issued by the Bank of Algeria, was enacted with the objective of organizing the internal control framework for Algerian banking institutions through a precise legal framework that defines its constituent elements and modalities of operation. The system rests upon a set of integrated subsystems encompassing the oversight of operations and internal procedures, the accounting and information processing system, risk measurement and monitoring systems, and the document and archive preservation system.

This regulatory framework reflects the legislator's orientation towards a preventive approach that seeks to anticipate risks and mitigate their effects, thereby ensuring the soundness of banking operations and the stability of the financial sector. Furthermore, the effectiveness of this system is contingent not solely upon the existence of a comprehensive legal framework, but equally upon the availability of specialized human resources capable of operationalizing it within banking institutions.

Keywords : Internal control system; Banks; Financial institutions; Regulation 11-08; Bank of Algeria; Risk management; Compliance.

الملخص:

يعد جهاز الرقابة الداخلية للبنوك والمؤسسات المالية أحد أهم الآليات التنظيمية التي تهدف إلى ضمان سلامة العمليات المالية وحماية أصول المؤسسة، وتحقيق الشفافية والدقة في المعلومات المحاسبية والمالية، إضافة إلى تعزيز الامتثال للنصوص التشريعية والتنظيمية المعمول بها.

جاء النظام 11. 08 المتعلق بالرقابة الداخلية على البنوك والمؤسسات المالية الصادر عن بنك الجزائر بهدف تنظيم جهاز الرقابة الداخلية للبنوك والمؤسسات المالية في الجزائر، من خلال وضع إطار قانوني دقيق يحدد مكوناته وأليات عمله ويقوم هذا الجهاز على مجموعة من الأنظمة المتكاملة، تشمل رقابة العمليات والإجراءات، نظام المحاسبة ومعالجة المعلومات، وأنظمة قياس ومراقبة المخاطر، إضافة إلى نظام حفظ الوثائق والإرشيف.

ويعكس هذا التنظيم توجه المشرع نحو تبني مقاربة وقائية تهدف إلى استباق المخاطر والحد من أثارها، بما يضمن سلامة عمليات البنوك والمؤسسات المالية واستقرار القطاع المالي، كما يسعى إلى تعزيز الرقابة الداخلية الفعالة لهذه المؤسسات المصرفية.

كما أن نجاح هذا الجهاز لا يرتبط فقط بوجود إطار قانوني متكامل، بل يعتمد على كفاءة الموارد البشرية المتخصصة القادرة على تفعيله بشكل فعلي داخل البنوك والمؤسسات المالية.

الكلمات المفتاحية: جهاز، الرقابة الداخلية، البنوك، المؤسسات المالية، النظام.

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Introduction:

Control is a function that must be performed across all domains of practical activity, insofar as it constitutes a system for performance regulation and a guarantee for the achievement of planned objectives. With the growth of corporate size and the rapid development of information and communication technologies, increasing attention has been devoted to internal control systems as a mechanism for attaining institutionally defined objectives. This concept emerged in the early 1990s in the United States of America. **(Heem, 2009, p. 118)**

Internal auditing is recognized as one of the principal control tools within economic institutions, supporting managerial functions and complementing external oversight in the evaluation of the overall control system. The existence of an effective control system within an institution is instrumental in avoiding various risk shocks and serves as an early warning mechanism for external control bodies, particularly with respect to institutions operating in the banking sector.

The practical experience of Algeria provides numerous instances of crises that destabilized certain private banks — most notably Khalifa Bank and the Commercial and Industrial Bank (BCIA) in 2002 — as a direct consequence of failure to observe prudential management standards and the absence of mechanisms for anticipating risks, which found fertile ground in the fragility of that sector.

At the international level, calls have intensified for the enhancement of banking supervision and the strengthening of internal control systems, particularly in the aftermath of global financial crises, such as the 2008 subprime mortgage crisis and the financial scandals involving major American corporations. Specialists attributed these failures to weaknesses in internal control and internal audit systems. Numerous instances of risks affecting global banks have been documented, including the collapse of Barings Bank and losses amounting to 500 million dollars sustained by Bankers Trust and Natwest in 1994. **(Zmarrou, 2005, p. 3)**

Against this backdrop, the need to establish an internal control system for banks and financial institutions became a priority for both legislators and practitioners alike. The banking legislator thus intervened through Regulation No. 11-08 on the Internal Control of Banks and Financial Institutions (**Regulation No. 11-08, 2011**), enacted in application of Articles 97 bis and 97 bis 2 of Order No. 03-11 on Money and Credit (**Order No. 03-11, 2003**), subsequently abrogated by Law No. 23-09 on Money and Banking (**Law No. 23-09., 2023**). Pursuant to Article 166/02 of the Monetary and Banking Law, the provisions of this regulation remain in force until superseded by a new regulation to be issued by the Monetary and Banking Council.

Regulation 11-08 complements the existing corpus of regulations governing prudential management, valuation, accounting, and financial disclosures, all of which collectively aim to ensure the prudent and transparent management of banks and financial institutions.

The internal control system under Regulation 11-08 rests upon fundamental components, most notably internal auditing, risk management, and the compliance function. These functions operate in an integrated manner to ensure continuous evaluation of operations, early detection of risks, and timely implementation of corrective measures.

The significance of this system lies in the fact that it is not merely a mechanism for detecting errors or violations; it transcends this role to become a preventive and proactive tool

that enhances the overall performance of banking institutions and reinforces the confidence of clients and shareholders.

Central Research Question: *Does Regulation No. 11-08, issued by the Bank of Algeria, constitute a sufficient and effective legal framework for organizing the internal control system of banks and financial institutions?*

In order to address this question, the article is structured into two main sections: the first examines the nature and concept of the internal control system; the second analyzes the components of the internal control apparatus within banks and financial institutions.

1. The Nature of the Internal Control System for Banks and Financial Institutions

The internal control system plays a role of paramount importance in any institution. This section addresses, first, the concept of the internal control system and, second, its objectives.

2.1 The Concept of the Internal Control System

The following subsections examine the definitions advanced by specialized bodies, doctrinal scholarship, and the Algerian legislator respectively.

2.1.1 Definitions Proposed by Specialized Bodies

Several specialized bodies and organizations in various comparative legal systems have endeavored to provide a definition of the internal control system. The most significant are the following:

(a) The French Order of Expert Accountants and Certified Public Accountants

The internal control system is defined as the set of guarantees that assist in controlling the institution with a view to achieving the objectives of protection, asset preservation, quality of information, implementation of management directives, and performance improvement. This is reflected in the organization and application of the methods and procedures governing the institution's activities with the aim of sustaining the continuity of the aforementioned elements. (Lionnel & Gerard, 1992, p. 35)

(b) The Advisory Committee of British Accountants

Internal control comprises the aggregate of financial and other control systems established by management for the purposes of conducting the institution's business in an organized and effective manner, ensuring compliance with management policies, protecting assets, and guaranteeing — to the greatest extent possible — the accuracy and completeness of recorded information.

(c) The Auditing Standards Committee of the American Institute of Certified Public Accountants

Internal control encompasses the organizational plan, the means of coordination, and the standards adopted within the institution, with the objective of protecting its assets, controlling and verifying accounting data, confirming their accuracy and reliability, increasing operational efficiency, and encouraging employees to adhere to established administrative policies. (Khalid Amin, 1999, p. 228-229)

2.1.2 Doctrinal Definitions

Given the growing significance of the internal control system, legal and accounting scholarship has contributed the following definitions:

“The internal control system is a process entailing the establishment of a precise information system that enables continuous assurance that operations are carried out in

accordance with the established plan. This system rests upon the existence of permanent feedback data on actual performance, which are then compared against the established plan.”.(Muhammad Tawfiq, 2000, p. 287)

“It is a system for the generalization of management, oriented towards compliance with and respect for procedures, laws, rules, or any activity conducive to the realization of reasonable principles.”.(Allel, 2003, p. 13)

2.1.3 Definition by the Algerian Legislator

In the context of regulating internal control for banks and financial institutions, the Algerian legislator provided a definition in Article 3 of Regulation No. 11-08, (**Regulation No. 11-08, 2011**) which states:

“The internal control of banks and financial institutions shall consist of all operations, methodologies, and procedures aimed, in particular, at continuously ensuring the following:

- Control of activities;
- Proper functioning of internal operations;
- Adequate consideration of all risks, including operational risks;
- Compliance with internal procedures;
- Conformity with regulations and laws;
- Transparency and monitoring of banking operations;
- Reliability of financial information;
- Preservation of assets;
- Effective use of resources.”

A comparative analysis of these definitions reveals that they converge in defining the internal control system in terms of the objectives it is intended to achieve.

2.2 Characteristics of a Sound Internal Control System

There are numerous characteristics and requirements that any sound control system must possess in order to yield the intended benefits. These are: effectiveness and accuracy; objectivity and flexibility; timeliness; cost-efficiency; and integration.

2.2.1 Effectiveness and Accuracy

This characteristic implies the use of a sophisticated and well-designed control system capable of detecting errors and deviations before their occurrence and addressing them in a manner that prevents their recurrence, at the lowest possible cost and in the shortest possible time. (Umar, 2003, p. 137)

The control system must equally be capable of obtaining accurate, complete, and reliable information on performance, while verifying the sources of such information through recorded data, accounting documents and registers, and continuous monitoring, so as to faithfully represent the financial position of the institution at the close of each financial period.(Isma'il Bilāl, 2004, p. 371)

2.2.2 Objectivity and Flexibility

Financial management inevitably involves a human element; however, the assessment of whether a subordinate is performing appropriately must not be subject to personal or subjective considerations. Control tools and methods must be objective and impartial so as not to distort performance evaluation. Reports submitted by auditors must be objective and neutral, containing data with sufficient meaning regarding the financial position of the institution.

For a control system to be effective, it must also possess flexibility — that is, the capacity to adapt to emerging organizational changes. Problems and their causes rarely present themselves in identical forms, which requires that responses be tailored to the specific circumstances at hand. When new developments necessitate changes to objectives and established plans, management must have access to control methods capable of regulating responses to all problems arising within the institution. **(Muhammad Qasim, 2001, p. 373)**

2.2.3 Timeliness

A sound system requires that all information be received in a timely manner. Those responsible for control activities in banks and financial institutions — particularly those tasked with preparing reports — must observe strict deadlines for their submission. Information delivered late loses its significance and utility, in whole or in part — as in the case, for example, of an inquiry into the risks associated with a loan prior to its approval.

2.2.4 Cost-Efficiency

The purpose of a control system is to limit deviations from the plan and thereby curtail unnecessary expenditures or associated losses. The returns generated by the system must therefore exceed its costs. For instance, the acquisition of a highly sophisticated electronic system for control operations that could be managed using simpler and less costly systems is not economically justified if the benefits derived are disproportionate to the costs incurred. **(Muhammad Rafiq, s. d., p. 216)**

Cost-efficiency also implies aligning the proposed control system with the size and nature of the activity being controlled. Small institutions benefit from simplified control methods, whereas larger institutions require more complex and commensurate systems.

2.2.5 Integration

The integration of the internal control system refers to the necessity that these systems incorporate all standards applicable to organizational plans, while ensuring coherence among the plans themselves and among the control systems employed **(Yahya Husayn & Ibrahim Taha, 2001, p. 199)**

It follows that no internal control system can be considered effective unless it possesses the necessary characteristics and components, and unless it keeps pace with rapid developments in information technology. The principal tools of an effective internal control system include internal checks, internal auditing, and a comprehensive reporting system.

2.3 Objectives of the Internal Control System

On the basis of the definitions examined above, the following objectives may be identified:

2.3.1 Ensuring the Reliability and Accuracy of Information in Circulation

This objective aims to enhance the credibility of and confidence in financial information in circulation, thereby increasing its reliability for decision-making purposes. Ensuring the quality of accounting information contained in financial statements increases the degree of trust placed in such information (**Regulation No. 09-08, 2009**), ultimately reflecting the principle of transparency in the monitoring of banking operations and reinforcing public confidence in the financial system as a whole.

2.3.2 Ensuring the Rational Use of Institutional Assets

The control procedures applied within an institution aim to enhance effectiveness and guarantee the optimal use of available resources through sound internal decision-making,

predicated upon the reliability and accuracy of available information. This encompasses promoting operational efficiency as well as protecting the institution's assets through physical and accounting safeguards over all asset elements against unlawful exploitation, misuse, loss, or embezzlement, whether committed in bad or good faith. (Muhammad al-Tahami & Mas'ud, 2005, p. 90)

2.3.3 Adherence to and Compliance with Administrative Policies

The institution's objectives are translated into a set of integrated policies, plans, and procedures covering all aspects of the institution, as enshrined in internal regulations and expressed in the proper functioning of internal operations and compliance with internal procedures. These policies are communicated to operational staff through the various administrative levels by means of written or verbal instructions, thereby enabling the institution to achieve its defined objectives.

Encouraging compliance with administrative policies and the implementation of management directives enables management to monitor the execution of established plans, evaluate performance across operational units, identify the extent to which planned objectives are being achieved, and detect deviations and irregularities in order to take the necessary corrective action.

2.3.4 Continuous Prudence and Precaution

Financial activity is inherently associated with risk. It is therefore imperative to exercise prudence and precaution and to adopt all measures necessary to ensure compliance with applicable laws and regulations, with a view to avoiding various potential risks. These include credit risk, concentration risk, overall interest rate risk (**Regulation No. 11-04, 2011**), settlement risk, market risk, liquidity risk, legal risk, non-compliance risk, and operational risk. (**Article 02 ,Regulation No. 11-08, 2011**)

2. Components of the Internal Control Apparatus in Banks and Financial Institutions

Internal control in banking institutions constitutes more than a mere institutional choice; it is a necessity dictated by the technical nature of banking activity and the complexity of its operations. Consequently, the Monetary and Banking Law (**Articles 107 and 108 , Law No. 23-09,2023**) obliges banks and financial institutions to establish an internal control apparatus within their organizational structures, in application of the Twenty-sixth Principle of the Basel Core Principles for Effective Banking Supervision. (**Bank for International Settlements, 2012**)

This section examines, first, the components of the internal control apparatus, and second, the specialized human resources tasked with activating its systems.

3.1 Components of the Internal Control System

Banks and financial institutions are obligated to establish an effective internal control apparatus encompassing appropriate internal organization and the necessary procedures to ensure conformity with applicable legislative and regulatory provisions. This apparatus must provide reasonable assurance regarding the proper conduct of operations, the reliability of financial information, and the security of assets. All mechanisms established for this purpose must be adapted to the size and networks of the banks and financial institutions concerned, as well as to the nature and scale of their activities, in order to enable them to identify, measure, and mitigate the various risks to which they are exposed.

In this regard, the internal control apparatus shall include, in particular, the following systems:

3.1.1 The System of Oversight of Operations and Internal Procedures

The system of oversight of operations and procedures aims, in particular, to (**Article 06 ,Regulation No. 11-08, 2011**):

- Verify the conformity of completed operations and the internal procedures applied with applicable legislative and regulatory provisions, professional and ethical standards, and the directives of the deliberative body and the instructions of the executive body;
- Ensure strict compliance with internal procedures for decision-making and risk assumption, irrespective of the nature of such risk, as well as the application of management standards defined by the executive body;
- Verify the quality of accounting and financial information, whether addressed to the executive body, the deliberative body, the Bank of Algeria, the Banking Commission, or intended for publication;
- Monitor the conditions of valuation, recording, preservation, and availability of accounting and financial information;
- Verify the quality of information and communication systems;
- Ensure the implementation of prescribed corrective procedures within reasonable timeframes.

In order to achieve these objectives, the system must encompass:

- Permanent oversight of conformity, security, and validation of completed operations, as well as compliance with all directives, instructions, and internal procedures, particularly those relating to the control of risks associated with operations; (**Article 02 ,Regulation No. 11-08, 2011**).
- Periodic oversight of the regularity and security of operations, compliance with internal procedures, the effectiveness of permanent oversight, the level of actual risk exposure, and the effectiveness and adequacy of risk management mechanisms. (**Article 07 ,Regulation No. 11-08, 2011**).

For the purposes of implementing this system, banks and financial institutions are required to establish a mechanism for controlling non-compliance risk, defined as the risk of judicial, administrative, or disciplinary sanctions, or significant financial losses or reputational damage, arising from failure to observe the specific rules governing banking activities.(**Article 02 ,Regulation No. 11-08, 2011**).

Banks and financial institutions are additionally required to establish the organization, procedures, and means necessary to comply with provisions applicable in the framework of preventing, detecting, and combating money laundering and the financing of terrorism. To this end, they must in particular (**Article 29 ,Regulation No. 11-08, 2011**):

- Ensure rigorous knowledge of their clients and the operations they conduct, including by establishing internal standards defining client acceptance policies, identification procedures, client risk classification, and measures adapted to each risk category;
- Collect information on their banking correspondents and ensure that such correspondents are supervised by competent authorities and cooperate within a national anti-money laundering framework;

- Ensure precise identification of the ordering party and the beneficiary of electronic fund transfers;
- Monitor client movements using appropriate systems to detect atypical, unusual, or economically unjustified operations;
- Maintain alert systems enabling detection of operations raising suspicion of money laundering or terrorist financing;
- Comply with the legal obligation to report suspicious transactions in accordance with applicable legal and regulatory requirements;
- Retain all relevant documents and records relating to client identification, measures taken, and operations flagged by alert or reporting systems;
- Establish a permanent training programme on anti-money laundering and counter-terrorist financing mechanisms;
- Inform all staff of the procedures allowing each agent to report suspicious operations to the compliance officer;
- Define professional ethics standards with respect to suspicious transaction reporting and communicate these to all staff.

3.1.2 The Accounting and Information Processing System

Article 31 of Regulation No. 11-08 provides that banks and financial institutions must comply with the legislative and regulatory provisions relating to the financial accounting system, (**Law No. 07-11, 2011**) and in particular the regulations of the Monetary and Credit Council and the instructions of the Bank of Algeria. The organization established must ensure the existence of procedures known as the "audit trail," which enable the reconstitution of operations in chronological order, the substantiation of each item of information by means of original documents, and the explanation of changes in account balances from one accounting close to another.

Accounting information appearing in periodic documents and reports addressed to the Bank of Algeria or to the Banking Commission must be extracted from accounting records and verifiable by means of original documents.

(a) The Accounting Manual

The accounting manual provides a sound basis for the presentation of aggregate data relevant for analysis and the comparisons necessary for control purposes. Accounts are classified into principal and subsidiary categories, with explanations of how each account is operated. In designing the accounting manual, two considerations must be observed: the manual must reflect the results and financial position of the economic unit; and comprehensive control accounts must be provided to reconcile subsidiary ledgers (**Abd al-Fattah & Muhammad, 2004, p. 378**)

(b) The Set of Accounting Books

In accordance with the nature and activities of the institution, a complete and integrated set of accounting books must be prepared and maintained. Key requirements include the numbering of pages prior to use, the prioritization of recording transactions at the time of their occurrence, and simplicity of design to facilitate ease of use and comprehension.

(c) Automated and Electronic Means

Automated means have become important components of the accounting system within institutions, and the expanded use of computers in carrying out the accounting cycle,

analyzing data, and preparing financial information reinforces the control role of the accounting system. Their advantages include accuracy and speed of processing, ease of access to information, time-saving, operational efficiency, reduced processing costs, and effective information management. (Muhammad al-Tahami & Mas'ud, 2005, p. 102)

3.1.3 Risk and Performance Measurement Systems

Pursuant to Article 37 of Regulation No. 11-08, banks and financial institutions are required to establish systems for risk measurement and analysis, adapted to the nature and scale of their operations, with a view to avoiding the various categories of risk to which they are exposed — in particular credit risk, concentration risk, market risk, overall interest rate risk, liquidity risk, settlement risk, non-compliance risk, and operational risk. Banks and financial institutions must regularly evaluate the performance of their operations, with these systems also enabling prospective and cross-sectional risk analysis.

Banks and financial institutions must additionally establish systems and procedures enabling the compilation of a risk map identifying and assessing all risks to which the institution may be exposed, based on both internal factors (such as the nature of activities or the quality of existing systems) and external factors (such as the economic environment or natural events).

(a) Credit Risk Selection and Measurement

Banks and financial institutions are required to have a procedure for the selection and measurement of credit risk. Credit risk assessment must take into account the financial position of the beneficiary, their repayment capacity, and guarantees obtained. It must also include an analysis of the business environment, the characteristics of partners or shareholders, and management. The selection of credit operations must take profitability into account, requiring comprehensive prospective analysis of charges and income for each loan. (Article 49, Regulation No. 11-08, 2011)

(b) Inter-Bank Risk Measurement

Banks and financial institutions must establish a mechanism for identifying and measuring the distribution of their existing inter-bank loans and borrowings. This mechanism includes a set of limits, a system for recording and processing information enabling the aggregation of loans extended and borrowings received for each counterparty, and procedures for monitoring and controlling established limits (Article 49, Regulation No. 11-08, 2011)

(c) Liquidity Risk Measurement

Beyond the risks previously identified, liquidity risk also warrants particular attention . (Article 02 ,Regulation No. 11-08, 2011)

. Banks and financial institutions are required to establish a mechanism for identifying, measuring, and managing liquidity risk, relying on the definition of a general liquidity management policy, the formulation of projections, the inventory of financing sources, a set of limits accompanied by measurement and alert systems, and the establishment of regularly updated crisis scenarios.

Banks and financial institutions are also exposed to overall interest rate risk . (Article 02 ,Regulation No. 11-08, 2011)

, and are therefore required to establish an internal information system enabling the measurement, monitoring, and anticipation of corrective adjustments as necessary.

(d) Market Risk Measurement

Given the instability of the foreign exchange market, banks and financial institutions are required to record their foreign exchange operations daily in accordance with regulatory provisions governing the foreign exchange market (**Article 53 ,Regulation No. 11-08, 2011**)

If their operations in financial markets and the foreign exchange market are significant, they must establish specific systems to ensure their measurement, monitoring, and control, enabling in particular the calculation of trading portfolio performance, the measurement of exposure to foreign exchange risk, and the valuation of the price change risk of each financial instrument held.

3.1.4 Risk Monitoring and Control Systems

In order to guard against credit risk, concentration risk, inter-bank risks (**Regulation No. 11-03, 2011**) , interest rate risk, exchange rate risk, liquidity risk, and payment risk, banks and financial institutions are required to establish monitoring and control systems that identify internal limits and the conditions under which these limits are observed (**Article 53 , No. 11-03, 2011**) .

Banks and financial institutions shall record significant incidents arising from failures in compliance with internal procedures, from system malfunctions — particularly in information systems — and from internal or external fraud or attempted fraud. Incident files shall be made available to those responsible for permanent and periodic oversight (**Article 60 ,Regulation No. 11-03, 2011**)

3.1.5 The Document and Archive Preservation System

Banks and financial institutions shall compile procedural manuals relating to their various activities, specifying at minimum the modalities of recording, processing, and retrieval of information, accounting plans, and procedures for the initiation of operations. They shall also prepare comprehensive documentation precisely defining the means employed to ensure the proper functioning of the internal control apparatus.

The existence of an archive preserved in a secure and sound manner — particularly in the case of electronic storage (**Executive Decree No. 09-110, 2009**)

— contributes to the effective functioning of the internal control system by facilitating the audit process and providing the auditor with documents constituting sufficient evidence. Control over system documentation ensures the proper documentation of records, reports, working papers, system descriptions, operating instructions, and other materials that assist in describing the system and the procedures used for data processing purposes.(**Hussein, 2004, p. 375**)

3.2 Specialized Human Resources of the Internal Control Apparatus

Pursuant to the provisions of Regulation No. 11-08, the operationalization of the internal control apparatus is entrusted to a body of specialized agents, alongside officers responsible for permanent and periodic oversight, as well as the compliance control officer.

3.2.1 Specialized Agents

In order to ensure the effective implementation of permanent and periodic oversight, banks and financial institutions must enlist agents at both central and local service levels who are exclusively assigned to the task of permanent oversight (**Article 08 ,Regulation No. 11-08, 2011**), in addition to other agents engaged in operational activities. Banks and financial institutions bear the duty of ensuring the principle of independence in the exercise of permanent oversight functions (**Article 16 ,Regulation No. 11-08, 2011**) .

With respect to the exercise of periodic oversight, this task is assigned to specialized agents distinct from those responsible for permanent oversight (**Article 08 ,Regulation No. 11-08, 2011**), attached to the highest level of the hierarchical chain, which confers upon them the capacity to exercise their functions with full independence (**Article 17 ,Regulation No. 11-08, 2011**)

3.2.2 Officers Responsible for Permanent and Periodic Oversight

Banks and financial institutions are mandatorily required to appoint an officer responsible for coordinating the permanent oversight mechanisms and another officer responsible for ensuring the coherence of the periodic oversight mechanisms (**Article 09 ,Regulation No. 11-08, 2011**). Their identities must be notified to the Banking Commission(**Article 09/02 ,Regulation No. 11-08, 2011**). Appointment to either position is incompatible with the performance of any commercial, financial, or accounting function, unless the appointee is a member of the executive body (**Article 09/04 ,Regulation No. 11-08, 2011**).

However, a bank or financial institution may dispense with the appointment of the aforementioned officers if it is sufficient to designate either a single individual or a member of the executive body, under the oversight of the deliberative body (**Article 10 ,Regulation No. 11-08, 2011**), provided that the number, competence, and resources of the persons and procedures dedicated to these functions are adapted to the size, networks, and activities of the bank or financial institution concerned (**Article 13 ,Regulation No. 11-08, 2011**).

3.2.3 The Compliance Control Officer

Banks and financial institutions are required to appoint an officer responsible for ensuring the coherence and effectiveness of the control of non-compliance risk. The identity of this officer must be communicated to the Banking Commission(**Article 20/01 ,Regulation No. 11-08, 2011**). By way of exception, this responsibility may be assigned to a permanent oversight officer or to a member of the executive body, when the size of the bank or financial institution does not justify its assignment to a designated individual (**Article 21 ,Regulation No. 11-08, 2011**) .

Banks and financial institutions are required to ensure that agents responsible for compliance control have access to sufficient and appropriate means for the exercise of their activities(**Article 22 ,Regulation No. 11-08, 2011**), and to establish a mechanism that enables regular monitoring of changes in the texts applicable to their operations, ensuring the immediate communication of any such change to their staff(**Article 23 ,Regulation No. 11-08, 2011**) .

They are further required to establish procedures for the centralization and assessment of information relating to potential professional irregularities arising in the actual implementation of compliance obligations, enabling every manager or agent to report potential compliance irregularities to the compliance officer or one of his or her delegates (**Article 27 ,Regulation No. 11-08, 2011**) .

Conclusion:

In conclusion, it may be affirmed that the Algerian legislator, through Regulation No. 11-08, has taken a significant step towards the organization of the internal control apparatus within banks and financial institutions. The regulation establishes a detailed and precise legal framework defining the organization of the internal control system, regulating the modalities of its functioning and its various functions, and thereby ensuring effective and comprehensive

control over banking operations. This legislative orientation reflects the legislator's commitment to enhancing the stability of the banking sector and protecting it from potential risks through a preventive approach that prioritizes risk anticipation over ex post remediation.

The principal conclusions yielded by this study are as follows:

- The internal control apparatus established under Regulation 11-08 has become a comprehensive and integrated system encompassing several interrelated components: oversight of operations and procedures, the accounting and information processing system, risk and performance measurement systems, risk control systems, and the document and archive preservation system. All of these subsystems are grounded in the principle of risk anticipation and prevention, in conformity with applicable international standards, premised on the recognition that the materialization of risk may entail severe consequences.

- The effectiveness of this apparatus is contingent upon the extent to which its provisions are correctly applied within banks and financial institutions and upon the institutional capacity to instill a culture of effective internal oversight, ensuring transparency and sound performance.

- The effectiveness of the internal control apparatus is contingent upon the availability of specialized and qualified human resources in the fields of accounting, auditing, risk management, and information systems, as these constitute the decisive factor in operationalizing its mechanisms and ensuring its efficacy.

The principal recommendations advanced are as follows:

- It is necessary to replace Regulation No. 11-08 with a new regulation to be issued by the Monetary and Banking Council in accordance with Law No. 23-09 on Money and Banking.

- It is necessary to strengthen the practical framework of Regulation No. 11-08 by intensifying ongoing training for human resources working in the field of internal control, and by developing their competencies in line with contemporary developments in banking and risk management.

- It is necessary to modernize the technological means used in control, accounting, and information processing.

- It is necessary to continue the alignment of Algerian banking legislation with international standards, so as to enhance the performance of the banking sector and reinforce the confidence of its counterparties.

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