ISLAM, ACCOUNTING AND FINANCE
CHALLENGES AND OPPORTUNITIES
IN THE NEW DECADE

Norhayati Mohd Alwi  Sherliza Puat Nelson
ISLAM,
ACCOUNTING AND FINANCE:
CHALLENGES AND OPPORTUNITIES
IN THE NEW DECADE

Editors:
Norhayati Mohd Alwi
Sherliza Puat Nelson

IIUM Press
CONTENTS

PREFACE vi
EDITORS’ NOTE vii

SECTION ONE
1. INNER MEANINGS OF ISLAMIC FINANCE: UNDERSTANDING THE THEORY BEHIND ALL THEORIES
   Abdulla Galadari

   19
   2. ISLAMIC LETTER OF CREDIT (LC-i) IN MALAYSIA: THE UCP 600 AND ITS SHARIAH ISSUES
   Sharifah Faigah Syed Alwi
   Uzaimah Ibrahim
   Mohd Fuad Sawari

   31
   3. AN ANALYSIS OF CREDIT RISK PRACTICES OF ISLAMIC BANKS OPERATING IN PAKISTAN
   Azam Ali
   Salina Kassim
   Noraini Mohd Ariffin
   Mazhar Khan

SECTION TWO
4. GOVERNANCE PRACTICES IN RESOLVING FINANCIAL CRISES: AN ISLAMIC ECONOMICS VIEWPOINT
   Mohyi Aldin Yacob Abu Alhoud
   Riaz Ansary

   44
   5. GLOBAL FINANCIAL CRISES: AN EXPLORATORY CONCEPTUAL SURVEY OF SELECTED LITERATURES FROM AN ISLAMIC PERSPECTIVE
   Dzulastri Abd. Razak
   Mustafa Omar Mohammed

   60
   6. PERFORMANCE MEASUREMENT IN LOCAL GOVERNMENT: TO PERFORM OR TO SIMPLY CONFORM?
   Rusdi Akbar

   71
SECTION THREE
7. COMPARATIVE ANALYSIS OF SHARIAH REVIEW AND AUDIT 89
Nurazaliia Zakaria
Zurina Shafti

8. FRAUDULENT FINANCIAL REPORTING IN MALAYSIA: A BASIC ANALYSIS 102
Sherliza Puat Nelson

9. ACCOUNTABILITY ISSUES IN PUBLIC-PRIVATE PARTNERSHIP: AN ISLAMIC PERSPECTIVE 116
Farid Arif Wibowo

SECTION FOUR
10. MANAGEMENT CONTROL SYSTEM, ORGANIZATIONAL COMMITMENT AND MANAGERIAL PERFORMANCE IN ZAKAT INSTITUTION 133
Namelolfi Amran
Sofiah Md Auzair

11. CHARACTERISTICS AFFECTING ISLAMIC CHARITABLE DONATIONS: EMPIRICAL EVIDENCE FROM INDONESIA 146
Rahmatina A. Kasri
CHAPTER 2

ISLAMIC LETTER OF CREDIT (LC-i) IN MALAYSIA: THE UCP 600 AND THE ISSUE OF INTEREST

Sharifah Faigah Syed Alwi
Uzaimah Ibrahim
Mohd Fuad Sawari

1. Introduction
Letters of credit are the product of the International Chamber of Commerce (ICC), which is a world business organisation based in Paris. According to Pang (2000), LC is a written undertaking issued by the issuing bank on the specific authorisation and instruction of its customer (applicant), who, normally, is the buyer/importer of the goods. Once the seller of the goods (beneficiary) named in the LC presents the stipulated documents evidencing shipment of the goods and those documents are in compliance with the terms and conditions as stipulated in the said LC, the issuing bank undertakes to make payment of a certain sum of money to him. Furthermore, the seller/exporter of the goods can expect the payment once he presents the stipulated documents and duly complies with the requisite terms and conditions of the LC since the undertaking is given by the issuing bank. The ICC rule that governs LC is the Uniform Customs and Practice for Documentary Credit, 2007 revision, ICC Publication no. 600, or, popularly known as UCP 600, which is the current edition (Teoh, 2008). Obviously, UCP 600 is designed by the ICC to govern the conventional LC. UCP is the most recognised rule for LC by the banking world because it provides a uniform mechanism for the use of LC through the involvement of commercial banks (Chatterjee, 2006).

As at February 2011, there are 17 Islamic banks in Malaysia according to the statistics released by Bank Negara Malaysia — the Central Bank of Malaysia (2010). The dire need of the market to trade finance has encouraged the Islamic banks in Malaysia to offer facilities and products, which relate to domestic and international trade. Islamic LC or Letter of credit-i (LC-i) is the most popular facility of Islamic trade finance and it is offered by all Islamic banks in Malaysia. The operational aspects of LC-i are very similar to the operations of LC in conventional banks and governed by the same UCP 600. Islamic banks in Malaysia offer LC based on Shariah contracts like wakalah (agency) and murabahah (cost-plus). The discussions in this paper will focus on one of the Shariah issues on the UCP 600, which governs LC offered by the Islamic banks in Malaysia. The paper will begin by presenting the operation of LC in Islamic banks in Malaysia. It will then elaborate upon the