

Empirical Study of Ethical Perception of Accounting Students in Hong Kong

Chun Cheong, Steve, Fong

Abstract—This study examines Hong Kong accounting students' perceptions when presented in ethical dilemmas in internal auditing and finds out whether the factors of "enrollment in Ethics courses" and "enrollment in Auditing courses" affect their reasoning.

Data from 189 accounting students at tertiary level are collected through survey. Respondents' attitude towards the six vignettes of ethical dilemmas that internal auditors may encounter when performing their jobs is analyzed. The vignettes are adopted from Uniform Certified Internal Auditor examinations. Results report that students with enrollment in ethics courses or auditing courses response more ethically than the ones without such studies.

Index Terms—Ethical dilemmas, internal auditing, ethics course, auditing course.

I. ETHICAL PERCEPTION OF HONG KONG ACCOUNTING STUDENTS

Over the past twenty years, the image of the accounting profession has been damaged by large scale accounting scandals as Enron, WorldCom and Xerox [1]. Accounting irregularities made by management involving accounting professionals lead to the crisis of ethics in the accounting profession and the questioning of their moral integrity. As an international business hub in China and Asia, it is worthwhile to study the Hong Kong accounting students' attitude when facing ethical dilemmas as they are potential future accounting professionals.

II. IMPORTANCE OF ETHICS IN ACCOUNTING PROFESSION

Accountants and auditors require relatively high level of ethics for performing their work tasks. They are not only expected to be qualified, but are also anticipated to possess high degree of professional integrity and conduct their duties competently and with due care and diligence [2]. Accounting profession is self-regulated by professional associations rather than directly regulated by the government. In Hong Kong, violation of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) would result in revoking a CPA's license [3]. Hence ethics in the accounting profession is of utmost importance.

A. Significance of the Research

The research provides information to educators and

employers about the moral development of Hong Kong accounting students who are the potential future accountants or auditors. It gives insight to train students when facing ethical issues which they may encounter in career. Training and qualification criteria may be designed and implemented to ensure that future accountants acquire ethical maturity and moral reasoning capabilities.

[4]-[6] conducted researches in accounting field to study factors affecting individual's moral development. This research intends to further identify variables that affect one's ethical reasoning levels in internal auditing.

III. LITERATURE REVIEW

Ethical theories provide principles which individual can apply [7]. These can be differentiated into "Consequentialist ethics" and "Non-consequentialist ethics" groups.

A. Consequentialist Ethics

Consequentialist ethics base the moral judgements on the outcomes of an action. If the outcomes are desirable, the action is morally right regardless of the process. If the outcomes are not desirable, the action is morally wrong despite people think the action is right [8].

B. Non-consequentialist Ethics

Non-consequentialist theories base the moral judgement on the applied principles of motivation by the decision-maker. If the underlying principles are right, the action is right even though the outcome is undesirable. If the underlying principles are morally wrong, the action is morally wrong no matter how desirable the outcome is [9].

C. Cognitive Moral Development (CMD)

Lawrence Kohlberg's 6-stage Cognitive Moral Development (CMD) theory is the commonly used theory to describe the different reasoning processes and individual which applies to ethical judgements [7]. He claimed the higher the stage of moral reasoning, the more ethical the decision made. Two individuals at different levels could have the same decision, but were based on different ways of motives and thinking. Kohlberg thought human development continues throughout life-time [10].

D. Relationship between CMD and Accounting

The Code of Ethics for Professional Accountants (COE) by [11] seems to correlate with Kohlberg's CMD. It states accounting profession has the obligation to act on the public interest. Therefore, this can be compared to stage 5 that expresses the idea of social impact and human rights. Also, the professional behavior is stated in COE which are similar

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The author is with the Macao Polytechnic Institute of Macao, Macao SAR (e-mail: ccfong@ipm.edu.mo).

to stage 4 that emphasizes using authority to keep morality [12].

E. Empirical Researches on Ethics Development of Accounting Students

One instrument employed to measure individuals' moral development is Defining Issue Test (DIT). DIT is composed of 6 stories with different moral dilemmas and a list of standard items which represent the choices of ethical decision making with different focal points, linking with the 6 stages of CMD, which is similar to Kohlberg's one. Each choice of ethical decision making gives a "Principled score" ranging from 0-0.95. The higher the Principled scores obtained the higher moral judgment development one has [13] and [14].

The DIT test is built in an internal reliability check to overcome any errors of misinterpretation by the test. Thus, it has been employed by different researchers coming from over 40 foreign countries in over 1,000 studies. However, because of the cultural differences, variations in some of the research outcomes have been resulted [15].

F. Ethics and Auditing Courses

In accounting programmes, ethics is integrated into an auditing course. Some researchers [4], [16], [12] and [17] suggested that studying ethics courses could improve one's moral reasoning ability. [5] suggested that neither formal ethics courses nor the integration of ethics cases into an auditing course could improve the level of moral reasoning.

[4] stated that an ethics course could be effective in raising student's levels of moral development. She advocated that ethics course should be included in the accounting course curriculum. [5] found integration of ethics cases into auditing course could not improve the moral reasoning.

[16] used DIT to test whether studying ethics courses would raise CPAs' moral development. The findings indicated that those CPAs with an ethics course in college tended to have higher P scores and so higher moral development. [12] found accounting students were at significantly higher stages of moral reasoning than those business students.

IV. HYPOTHESES SETTING

After discerning numerous overseas empirical researches on the perceived factors affecting the moral development of accounting students, there is a literature gap regarding similar studies carried out in Hong Kong as mentioned. Therefore, this paper will investigate how the factors of gender, level of education, study of ethics and study of auditing will have implications on the ethical development of the accounting students in Hong Kong.

There is a positive relationship in ethical reasoning and ethics course education [18] and [5].

A. Hypothesis 1

There is a difference in accounting students' enrollment in Ethics Courses and own ethical choice in resolving an internal auditing dilemma.

There is a positive relationship in auditing practices and auditing course education [5].

B. Hypothesis 2

There is a difference in accounting students' enrollment in Auditing Courses and his/her ethical choice in resolving an internal auditing dilemma.

V. METHODOLOGY

The survey was conducted by using a questionnaire comprising six vignettes of real-life situations faced by internal auditors. There are two parts in the questionnaire. The first part is about demographic data and the second part is about respondents' attitude towards the six vignettes of ethical dilemmas that internal auditors may encounter.

The six vignettes are adopted from prior Uniform Certified Internal Auditor examinations. [19] employed these six vignettes in his research from [20]. Six vignettes were adopted from prior Uniform Certified Internal Auditor examinations and were widely used by [19], the validity of this research instrument was assured.

Respondents were required to assess the acceptability of the internal auditors' behaviour in the six situations by Likert-type scale of "(1) Totally Acceptable"; "(2) Moderately Acceptable"; "(3) Slightly Acceptable"; "(4) Slightly Unacceptable"; "(5) Moderately Unacceptable" and "(6) Totally Unacceptable". It is worth to note that students in Hong Kong tend to favour on giving a "neutral" or middle response. Therefore, a 6-point scale was employed rather than a 5-point scale as used by [19] in order to encourage the Hong Kong respondents to give a genuine opinion which in turn will increase the validity of the research result.

Referring to the Internal Auditor's code of ethics, the Six Internal Auditing Vignettes [19] were set as:

Vignette 1 - Material Inventory shortage. Internal auditors are charged with coordination with external auditors in the exchange of information. All known material facts must be revealed. The director of internal auditing of the company decided to divulge the situation to management and then to the external auditors since the material inventory shortage affects the external auditor's report. Thus, the behaviour of the director of internal auditing is ethical.

Vignette 2 - Confidentiality of Information. Internal auditors should not obtain any personal gain from using confidential information acquired in the course of their duties. In this case, the internal auditor should be aware that he had conflict of interest with his father's securities trading. He should not discuss the confidential information to others especially to his immediate family members and friends. Also, it was in his best interest to inform his situation of lack of independence to his audit supervisor. However, the internal auditor had decided not to do so, thus, his behaviour is unethical.

Vignette 3 - Possible Conflict of Interests. Internal auditors should not take part in any activities which may be regarded as prejudicial to the ability to carry out duties objectively, in this case, the internal auditor had a reasonable lapse of time of five years to protect oneself from an accusation of conflict of interest. Thus, the behaviour is ethical.

Vignette 4 - Preparation of Tax Return of an Auditee. Internal auditors should not accept any jobs which might

impair or be regarded as impairing their professional judgement. They should avoid any potential conflicts of interest in order to maintain impartial and unbiased attitude. [19] stated that the internal auditor was prohibited from accepting a fee to prepare a personal tax return for a division manager because his professional judgment might be questioned. However, he would be preparing tax return for an employee of his employer. Thus, the behaviour of the internal auditor is unethical.

Vignette 5 - Whistle Blowing. Internal auditors should disclose all material facts which might affect the reporting. In this case, the behaviour of dumping toxic wastes into a stream without proper authorization was an unlawful practice against the environmental regulations. This activity was considered to be an illegal practice that might be penalized with large amount of money which in turn would affect the financial situations of the company. Thus, the internal auditor's decision of reporting the findings to proper individuals is ethical.

Vignette 6 - Lack of Segregation of Duties. Internal auditors should be alert to significant risks which might affect operations, resources or objectives. Strict control procedures should be imposed on dealing cash since cash has a high degree of inherent risk. Physical access to cash and record keeping functions should be separated regardless of the

standard of moral attitude of the individuals involved. In addition, the internal auditor should inform the management about the inadequate internal control over the cash dealing process. However, in this case, the auditor had noted in the working papers that controls over receipts are adequate. Thus, the behaviour of the auditor is unethical.

A. Research Sample and Data Collection

The sample selected comprised three student groups.

Group 1 students were 112 accounting degree students from a university in Hong Kong who studied ethics and auditing courses.

Group 2 students are 87 accounting degree students from another university who studied auditing courses only.

Group 3 students were 108 accounting degree students from a tertiary college who did not study any ethics courses, and some of them studied auditing courses while most of them did not.

Survey invitation to the students were sent through email. The emails comprised the questionnaire hyperlink in Google. Three different hyperlinks with identical research instrument were sent to identify the institutions. The respondents were required to select answers that best fit their situations and perceptions (Table I).

TABLE I: DEMOGRAPHIC CHARACTERISTICS OF THE RECEIVED STUDENT RESPONSES

				GENDER				Total
				Male		Female		
				ETHICAL COURSE		ETHICAL COURSE		
				Yes	No	Yes	No	
LEVEL OF EDUCATION	Degree	AUDITING COURSE	Yes	27	30	44	32	133
			No	0	0	0	0	0
	Associate Degree	AUDITING COURSE	Yes	0	4	0	2	6
			No	0	18	0	32	50
Total				27	52	44	66	189

TABLE II: ANOVA OF ETHICS COURSES

		Sum of Squares	df	Mean Square	F	Sig.
Vignette 1	Between Groups	5.825	1	5.825	10.185	.002
	Within Groups	106.948	187	.572		
	Total	112.772	188			
Vignette 2	Between Groups	69.124	1	69.124	68.468	.000
	Within Groups	188.792	187	1.010		
	Total	257.915	188			
Vignette 3	Between Groups	1.436	1	1.436	2.416	.122
	Within Groups	111.146	187	.594		
	Total	112.582	188			
Vignette 4	Between Groups	.038	1	.038	.039	.845
	Within Groups	184.036	187	.984		
	Total	184.074	188			
Vignette 5	Between Groups	1.054	1	1.054	3.204	.075
	Within Groups	61.528	187	.329		
	Total	62.582	188			
Vignette 6	Between Groups	80.812	1	80.812	59.564	.000
	Within Groups	253.706	187	1.357		
	Total	334.519	188			

79(42%) respondents were males while 110(58%) respondents were females. 133(70%) respondents were at degree level while 56(30%) respondents were at associated degree level. 71(38%) respondents studied ethics courses while 118(62%) respondents did not. 139 (74%) respondents

studied auditing courses while 50(26%) respondents did not.

B. Analysis of the Findings on the Ethical Awareness of the Hong Kong's Accounting Students in Internal Auditing

About Hypothesis 1, ANOVA was used to determine

whether accounting students' enrollment in ethics courses has influence when resolving internal auditing dilemma. The ANOVA test results are shown in Table II.

There were 71 students studied ethics courses (38%) before while the other 118 students did not enroll in any ethics courses (62%). Hypothesis 1 was partially supported with a significant difference that enrollment in ethics courses exercised influence to accounting students when resolving internal auditing dilemma. ANOVA illustrated significant difference among the groups in Vignettes 1, 2 and 6. However, there were no significant statistical differences between the two groups of students in Vignettes 3, 4 and 5, indicating that responses of resolving internal auditing dilemma were indifferent for accounting students with or without the ethics courses.

In Vignettes of 2 and 6, responses by students with ethics courses were statistically more ethical than the ones without the ethics courses. The findings were consistent with [4], [16] and [21], indicating ethics courses exercised influence on individuals' ethical awareness positively.

[21] identified the individual moral reasoning ability by the study of ethics course. He suggested that moral reasoning ability is positively associated with auditors' abilities to recognize threats of independence, conflicts of interest, materiality judgements and the of internal control problems.

Students without ethics courses tended to be statistically more ethical than the ones with ethics courses in Vignette 1. The findings were consistent with [5]. They indicated that ethics courses did not provide influence on individuals' ethical awareness. Responses from students with ethics courses tended to be less ethical, yet, they were able to identify that the behavior of the auditor in Vignette 1 was ethical (Fig. 1).

To eliminate the factor of education level that may affect the findings, further statistical analysis confined to the degree students from Groups 1 and 2 was performed below. The education level variable could be controlled. The effect of studying ethic courses on Hong Kong accounting students when resolving internal auditing dilemma could be evaluated. ANOVA test results are shown in Table III.

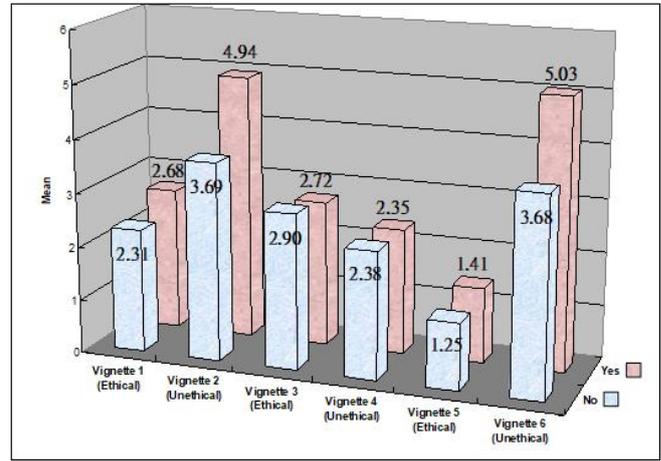


Fig. 1. Histogram of the means of enrollment of ethics courses in the six internal auditing vignettes. (In "Ethical" Vignettes (1,3,5), the closer the responses to 1, the higher the ethical awareness of the students.) (In "Unethical" Vignettes (2,4,6), the closer the responses to 6, the higher the ethical awareness of the students.)

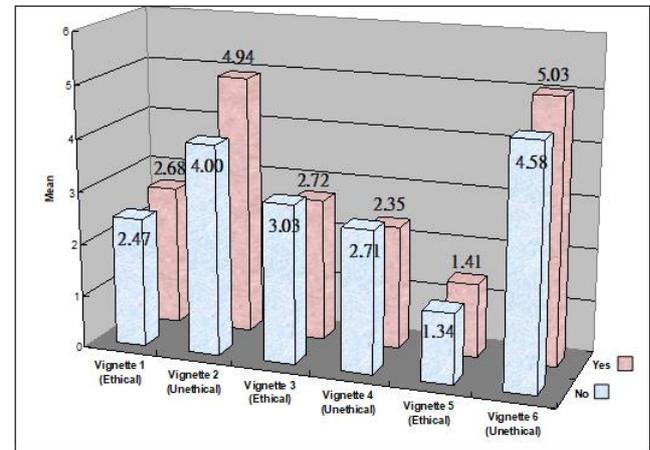


Fig. 2. Histogram of the means of enrollment of ethics courses in the six internal auditing vignettes. (In "Ethical" Vignettes (1,3,5), the closer the responses to 1, the higher the ethical awareness of the students.) (In "Unethical" Vignettes (2,4,6), the closer the responses to 6, the higher the ethical awareness of the students.)

TABLE III: ANOVA BY ETHICS COURSES

		Sum of Squares	df	Mean Square	F	Sig.
Vignette 1	Between Groups	1.436	1	1.436	2.214	.139
	Within Groups	84.985	131	.649		
	Total	86.421	132			
Vignette 2	Between Groups	29.473	1	29.473	29.752	.000
	Within Groups	129.775	131	.991		
	Total	159.248	132			
Vignette 3	Between Groups	3.262	1	3.262	4.952	.028
	Within Groups	86.302	131	.659		
	Total	89.564	132			
Vignette 4	Between Groups	4.232	1	4.232	4.995	.027
	Within Groups	110.971	131	.847		
	Total	115.203	132			
Vignette 5	Between Groups	.161	1	.161	.398	.529
	Within Groups	53.042	131	.405		
	Total	53.203	132			
Vignette 6	Between Groups	6.629	1	6.629	8.427	.004
	Within Groups	103.040	131	.787		
	Total	109.669	132			

Hypothesis 1 was supported with significant difference that enrollment in ethics courses had influence to accounting students when resolving internal auditing dilemma. ANOVA showed significant differences among the groups in Vignettes 2, 3, 4 and 6. There were no significant differences between the two groups of students in Vignettes 1 and 5, indicating that responses of resolving internal auditing dilemma were indifferent for accounting students with or without the ethics course study. Fig. 2 summarizes the means in the six Internal Auditing Vignettes by the independent variable of enrollment of ethics courses.

In the ethical Vignette 3 and the unethical Vignettes of 2

and 6, student responses with ethics course study were prone to be statistically more ethical than the ones without the study.

Student responses without ethics course studies tended to be more ethical than the ones with ethics course study in the ethical Vignette 4. Both student groups were unable to be aware of the auditor’s unethical behavior. The findings were consistent with [5].

About Hypothesis 2, ANOVA was to determine whether accounting students’ enrollment in auditing courses has influence when resolving internal auditing dilemma. The ANOVA test results were shown in Table IV.

TABLE VI: ANOVA BY AUDITING COURSES

		Sum of Squares	df	Mean Square	F	Sig.
Vignette 1	Between Groups	6.522	1	6.522	11.479	.001
	Within Groups	106.250	187	.568		
	Total	112.772	188			
Vignette 2	Between Groups	63.182	1	63.182	60.672	.000
	Within Groups	194.734	187	1.041		
	Total	257.915	188			
Vignette 3	Between Groups	.340	1	.340	.566	.453
	Within Groups	112.242	187	.600		
	Total	112.582	188			
Vignette 4	Between Groups	23.696	1	23.696	27.629	.000
	Within Groups	160.379	187	.858		
	Total	184.074	188			
Vignette 5	Between Groups	1.188	1	1.188	3.617	.059
	Within Groups	61.394	187	.328		
	Total	62.582	188			
Vignette 6	Between Groups	197.679	1	197.679	270.140	.000
	Within Groups	136.840	187	.732		
	Total	334.519	188			

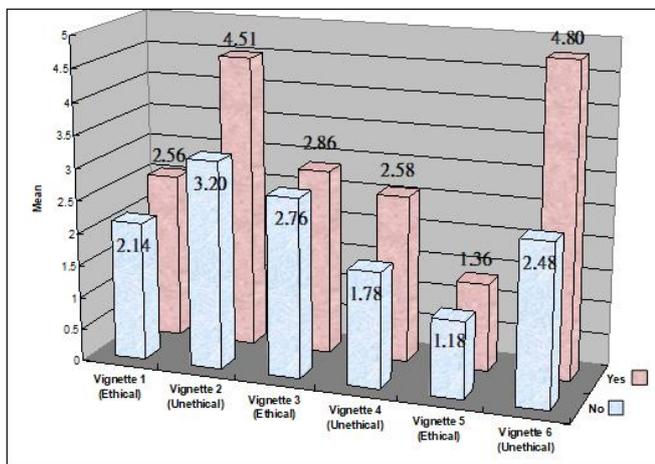


Fig. 3. Histogram of the means of enrollment of auditing courses in the six internal auditing vignettes.

(In “Ethical” Vignettes (1,3,5), the closer the responses to 1, the higher the ethical awareness of the students.) (In “Unethical” Vignettes (2,4,6), the closer the responses to 6, the higher the ethical awareness of the students.)

There were 139 (74%) students studied auditing courses while 50 (26%) students did not enroll in auditing course. ANOVA results supported Hypothesis 2 in all the unethical Vignettes of 2, 4, 6. There was no such statistical support for Hypothesis 2 in ethical Vignettes 3 and 5, indicating that enrollment in auditing courses was unlikely to have influence to accounting students when resolving internal auditing dilemma. Fig. 3 summarizes the means in the six Internal Auditing Vignettes by the independent variable of enrollment

of auditing courses.

In the unethical Vignettes of 2, 4, 6 responses by students with auditing courses were prone to be more ethical than the ones without auditing courses. The findings concurred with [12], indicating that auditing courses had positive influence on ethical awareness.

Students with auditing course studies appeared to be more aware of the inappropriateness of unethical situation in internal auditing. Students without auditing course studies were more ethical than the ones with auditing courses in the ethical Vignettes of 1, 3, 5. Significant differences between the two groups could be found in Vignette 1. The findings were consistent with [5], indicating that auditing courses did not enhance individuals’ ethical awareness. Student responses with auditing course studies tended to be less ethical.

The auditor behavior in Vignette 4 was unethical. This was about the preparation of tax return. There was a conflict of interest between the internal auditor and the other employees. The internal auditor may collaborate with the manager to cover up internal control weaknesses as the auditor wishes to secure income. Students tended to rate this behavior as an acceptable behavior.

The internal auditor behavior rated to be the most acceptable was Vignette 5. Most respondents rated it as “Totally Acceptable”. This was an ethical vignette concerning whistle blowing of dumping toxic wastes in a stream by certain company individuals. The findings may be caused by the students’ ability to identify the serious consequences of

not reporting this illegal activity.

For the internal auditor behavior rated to be the most unacceptable through Vignette 6, most of the respondents rated it as “Moderately Unacceptable”. This was an unethical vignette about internal auditor failing to mark “inadequate internal control” over the cash dealing process.

This research showed there was not a gender effect on accounting students when resolving internal auditing dilemma. Education level, specifically students’ enrollment in ethics courses and auditing courses exercised influence. The one with enrollment in ethics courses or auditing courses tended to respond more ethically than the one without. The effects became much apparent in the unethical Vignettes of 2, 4 and 6. Accounting students appeared to properly identify whether the internal auditors’ behavior in the Vignettes was ethical, except for Vignette 4.

VI. CONCLUSION AND RECOMMENDATIONS

This research assesses Hong Kong accounting student attitudes when they are presented with different ethical dilemmas in internal auditing. The findings enable accounting educators and employers to understand the moral development of accounting students who would be the future auditors.

The findings indicated that education, ethics and auditing courses play a significant role on enabling students to be aware of unethical situations. These factors were vital in helping accounting students to develop their cognitive moral development and to uphold “ethics of duties” and “ethics of rights and justice” [12]. Higher levels of ethics principles are vital for the accounting profession as they help upholding their belief of serving public interest [22]. [23] stated education should enhance individuals’ critical and logical thinking.

Students with auditing course studies were more aware of the inappropriateness of unethical situation in internal auditing. It could be due to the exposure to the regulations of the Code of Ethics by HKICPA. This has enhanced their knowledge about what behavior is unethical in accounting profession.

This research found enrollment in ethics courses and auditing courses exhibited influence. The respondents with studies of ethics courses or auditing courses tended to respond more ethically than the one without the study. It contributes to the literature of ethics in accounting profession by making educators and employers to be aware of the importance of education, ethic and auditing courses.

A. Limitations of This Research

As a preliminary research, this study is subject to some limitations:

First, the responses obtained in the research which attempt to predict the behaviour of Hong Kong accounting students might be compromised by other factors which cannot be controlled. For example, the respondent might think certain behaviour is not ethical. However, in the real business world, the respondent might not act what he/she has answered accordingly because of considering additional factors like fear of losing jobs, pressured by top management and the

existing culture of the company. Thus, the research findings might merely suggest the awareness of Hong Kong accounting students on ethical issues in internal auditing rather than their actual level of cognitive moral development. Other uncontrollable demographic factors like respondents’ character, their relationship with family and friends, their economic status and style of education before territory level, could possibly affect students’ ethical awareness as well. However, the degree and extent of such influence is not covered in this research.

Second, drawing conclusions about a population by sampling technique is never totally satisfactory. This is a common problem of sampling technique. However, if there is sufficient size of the sample, the differences between the whole population and the sample are likely to be incidental and relatively insignificant. In this study, the response rate was satisfactory with 62% and complied with numbers of prior literatures. Therefore, the findings are likely to be considered valid.

Third, the perceptions of the acceptability of the internal auditors’ behaviour are subjective. The responses received cannot be certain whether they are resulted from deliberate thinking rather than being decided arbitrarily.

B. Recommendations for Future Research

Service learning approach is commonly used in different disciplines for tertiary level students to learn effectively. This type of learning experience is found to be successful in some sectors of industry like medical or hotel sectors. Because students have to work practically rather than theoretically, they gain better understanding in their professions. Hence, it might be appropriate to investigate whether the teaching methodology could help increasing accounting students’ ethical awareness in accounting profession. A study could be conducted to ascertain those other factors which are likely to affect individuals’ moral choices as mentioned in the part of limitation.

Further to the findings from this research, a longitudinal study could be performed to investigate whether the respondents’ perception would be different after working for one or more years in accounting profession.

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Chun Cheong, Steve, Fong was born in Hong Kong in 1963. After tertiary studies in Hong Kong, Britain and Australia, he was granted PhD in business (accounting) in Curtin University of Technology in Australia in 2005.

He has got 20s years' experience in teaching accounting, finance, and management at tertiary levels, and brought up numerous graduates who now work in accounting and business fields in Macau, Hong Kong, China and overseas. He is now the associate professor and accounting programme coordinator at School of Business of Macao Polytechnic Institute in Macau. His major research interests include behavioral aspects of management accounting, accounting information management, Accounting Education and Corporate Governance. He has got around ten article publications in international referred journals. In addition, he has got three management accounting books jointly published with colleagues

Dr Fong is fellow member of CPA Australia (FCPA) and Association of International Accounting Association (FAIA (acad)). He is also member of Taxation Institute of Hong Kong (TIHK). Besides, he has been the Cost Accounting paper examiner since 2013 for Macao CPA.