

Corporate & Financial Weekly Digest

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Enron Auditors May Still Face Disciplinary Actions

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Whether former Arthur Andersen accountants violated professional standards and should be subject to sanctions for their audits of Enron more than 15 years ago has been a subject of protracted litigation. In the latest round, last week, three accountants were rebuffed by a Texas state appeals court which held that state regulators followed appropriate procedures in sanctioning the accountants in connection with audits of Enron completed in 1997 and 1998. The plaintiff accountants had their professional licenses revoked or suspended after the Texas State Board of Public Accountancy (the Board) reviewed the accountants' approval of Enron's off-balance sheet treatment of two entities, which resulted in artificially increasing the company's income. The Board had overruled decisions of an administrative law judge, who had recommended far less severe sanctions. The plaintiffs sought judicial review of the administrative ruling, claiming that the Board reach its decision in illegal closed-door sessions.

At the first stage of judicial review, the trial court agreed with the accountants and held that the Board violated Texas' Open Meetings Act, reversed the sanctions, and barred the Board from taking any further disciplinary action against the accountants. That ruling, however, was reversed by the appellate court last week. The court held that there were extensive, substantive public deliberations, the hearing of oral arguments, and an ultimate vote made in a public meeting, which satisfied the Board's responsibilities under the Open Meetings Act. Although the Board also had closed executive sessions, the court held that the Board's public votes met the legal requirements. The case was remanded for further proceedings, so the litigation still has not come to a close.

Texas State Board of Public Accountancy v. Bass, No. 03-10-002777-CV (Tex. App. Feb. 24, 2012).

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