

## The Sarbanes-Oxley Act and Enron

What is the Sarbanes-Oxley Act The Sarbanes-Oxley Act of 2002 is a United States federal law passed in response to the recent major corporate and accounting scandals including those at Enron, Tyco International, and WorldCom (now MCI). These scandals resulted in a decline of public trust in accounting and reporting practices. Named after sponsors Senator Paul Sarbanes (D-Md.) and Representative Michael G. Oxley (R-Oh.), the Act was approved by the House by a vote of 423-3 and by the Senate 99-0. The legislation is wide-ranging and establishes new or enhanced standards for all U.S. public company Boards, Management, and public accounting firms. The first and most important part of the Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board, which is charged with overseeing and disciplining accounting firms in their roles as auditors of public companies. Some of the major provisions of the Sarbanes-Oxley Act's include; a) Certification of financial reports by chief executive officers and chief financial officers. Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work. b) A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor. c) Significantly longer maximum jail sentences and larger fines for corporate executives who knowingly and willfully misstate financial statements, although maximum sentences are largely irrelevant because judges generally follow the Federal Sentencing Guidelines in setting actual sentences. d) Employee protections allowing those corporate fraud whistleblowers who file complaints with OSHA within 90 days, to win reinstatement, back pay and benefits, compensatory damages, abatement orders, and reasonable attorney fees and costs. What happened at Enron Everyone knows at least a little about the Enron story and the devastation it created in the lives of its employees. It's a story that belongs in any discussion of ethical accounting processes and what happens when accounting standards and ethics are discarded for personal greed. Enron began in 1985 selling natural gas to gas companies and businesses. In 1996, energy markets were changed so that the price of energy could now be decided by competition among energy companies instead of being fixed by government regulations. With this change, Enron began to function more as a middleman than a traditional energy supplier, trading in energy contracts instead of buying and selling natural gas. Enron's rapid growth created excitement among investors and drove the stock price up. As Enron grew, it expanded into other industries such as Internet services, and its financial contracts became more complicated. In order to keep growing at this rate, Enron began to borrow money to invest in new projects. However, because this debt would make their earnings look less impressive, Enron began to create partnerships that would allow it to keep debt off of its books. One partnership created by Enron, Chewco Investments (named after the Star Wars character Chewbacca) allowed Enron to keep \$600 million in debt off of the books it showed to the government and to people who own Enron stock. When this debt did not show up in Enron's reports, it made Enron seem much more successful than it actually was. In December 2000, Enron claimed to have tripled its profits in two years. In August 2001, Enron vice president Sherron Watkins sent an anonymous letter to the CEO of Enron, Kenneth Lay, describing accounting methods that she felt could lead Enron to "implode in a wave of accounting scandals." Also in August, CEO Kenneth Lay sent e-mails to his employees saying that he expected Enron stock prices to go up. Meanwhile, he sold off his own stock in Enron. On October 22nd, the Securities and Exchange Commission (SEC) announced that Enron was under investigation. On November 8th, Enron said that it has overstated earnings for the past four years by \$586 million and that it owed over \$6 billion in debt by next year. With these announcements, Enron's stock price took a dive. This drop triggered certain agreements with investors that made it necessary for Enron to repay their money immediately. When Enron could not come up with the cash to repay its creditors, it declared for Chapter 11 bankruptcy.

## About the Author

James Murray is a successful writer and online gambling expert providing valuable tips and advice for those interested in gambling and online gambling strategies. His numerous articles found on the Internet ,provide useful and factual gambling information and insight. Some of his websites are <http://www.casinospokerrooms.com>, <http://www.bingosbingos.com>, <http://www.top-sportsbook.ca>.

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