

BUSINESS NEWS

Investors win big in Castor Holdings auditors' negligence case

By News Desk

Updated October 9, 2014 10:39 AM

A Quebec judge has ruled in favour of big investors seeking more than \$1-billion in damages resulting from claims of professional negligence by auditors in the infamous **Castor Holdings Ltd.** fraud case that has dragged on for more than 16 years but the fight may only have just begun.

In a much-anticipated judgment handed down today, Quebec Superior Court Justice **Marie St-Pierre** concluded that Coopers & Lybrand, Castor's auditors before it plunged into bankruptcy in 1992, "failed to perform their professional services as auditors" in accordance with accepted accounting and auditing standards and issued "faulty opinions" relating to the company's financial position.

"Time has come to put an end to the longest running judicial saga in the legal history of Quebec and Canada," declares St-Pierre at the beginning of the massive 700-plus-page judgment in the case called *The Estate of the late Peter N. Widdrington v. Elliott C. Wightman et al.*

Widdrington v. Wightman (named after the senior Montreal manager at C&L) is a test case on common legal issues found in more than a dozen other suits first launched in 1992 against C&L — part of PricewaterhouseCoopers, or PwC, since a merger in 1998 — and more than 250 of its Canadian auditing partners by investors who had relied on financial statements that showed Castor was making annual profits in the 15 per cent to 20 per cent range.

The *Widdrington* suit, on behalf of the former chief executive of John Labatt Ltd. who died in 2005, sought \$2.7-million in damages.

Justice St-Pierre ruled Widdrington did suffer damages “as a direct result of C&L’s negligence,” and declared the defendants “jointly and severally responsible” for all of the claimed damages, plus interest, and costs.

Other investors with pending suits against C&L and its partners include the pension fund of **Chrysler Canada Inc .**, the **BC Credit Union Central** , **ING Bank Deutschland AG** , the Banque Nationale de Paris and **Bayerische Landesbank of Germany**.

The ruling of financial compensation for Widdrington’s estate does not mean there will be an automatic payout for the other claims despite the common issue in the so-called “test case” of how the Castor auditors performed their job. Other legal issues such as reliance (by investors on the financial statements) and causality could ultimately have to be determined on an individual basis depending on if and when there is a judgement on appeal in the Widdrington case and how the court system reacts to the prospect of a further influx of related claims and cases.

Castor Holdings was the Montreal-based holding company that raised money for real estate properties throughout Canada before it collapsed.

Former Montreal businessman and German financier **Wolfgang Stolzenberg** disappeared and is still being sought by Interpol on a Montreal police warrant in connection with more than three dozen counts of fraud.

Here are the main conclusions set out in St-Pierre's judgment. It is available in English on the left side of the webpage [here](#) .

- the audited consolidated financial statements of Castor for 1988 are materially misstated and misleading;
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- the audited consolidated financial statements of Castor for 1990 are materially misstated and misleading;
- C&L failed to perform their professional services as auditors for 1988 in accordance with the generally accepted auditing standards (“ GAAS ”);
- C&L failed to perform their professional services as auditors for 1989 in accordance with GAAS;
- C&L failed to perform their professional services as auditors for 1990 in accordance with GAAS;
- C&L issued various other faulty opinions relating to Castor's financial position during 1988 (valuation letters and certificate for Legal for Life Opinion);
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- C&L issued various faulty opinions relating to Castor's financial position during 1991 (valuation letters and certificate for Legal for Life Opinion);

- Widdrington's reliance on Defendants' professional opinion was reasonable;
- As a direct result of C&L's negligence, Widdrington did suffer some damages and shall be indemnified by C&L accordingly;
- The Court would have come to the same conclusions had she had to apply the New Brunswick or the Ontario Common law.

This story was originally published April 15, 2011 at 1:32 PM.