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Retrospective Corrections... Where Are the Legal Boundaries?

Can the past be corrected... without changing what actually happened?

Correcting Data... or Changing Rights?

A federal entity may discover an error in financial data relating to a previous year, after its accounts have been closed.

This raises an important legal question: Does the error concern how a transaction was recorded, or does it reveal an issue affecting the transaction's legal basis or consequences?

The distinction is fundamental. A transaction may be legally valid even though the financial records contain an error requiring correction. Conversely, examining an error may reveal a separate legal issue concerning the validity of the transaction or the rights and obligations arising from it.

Where Are the Legal Boundaries?

Not every error in financial records is an error in the underlying transaction, and not every financial correction resolves its legal consequences.

Accordingly, three distinct matters must be considered:

• Nature of the Error: Is the error confined to the recording or financial presentation of the transaction, or does it concern the legal basis on which the transaction was undertaken?

• Scope of the Treatment: Is correcting the financial data in accordance with the approved controls sufficient, or does the situation require additional procedures relating to the underlying transaction?

• Legal Consequences: Does the error reveal an issue concerning whether a right has arisen, the existence of an obligation, or the validity of a procedure, requiring a separate legal assessment?

The legal position of the transaction is determined by the facts and legal grounds giving rise to the relevant rights and obligations, in accordance with the applicable legislation, rather than merely by the date on which an error is discovered or corrected in the records.

Practical Example: One Transaction... Two Different Scenarios

In 2026, a federal entity discovers that a financial transaction relating to 2025 was not recorded correctly.

• Scenario One: The transaction is legally valid and satisfies the applicable legal requirements. In this case, the corrective action is limited to correcting the financial data in accordance with the approved procedures, without the correction itself altering the rights and obligations arising from the transaction.

• Scenario Two: Examination of the error reveals an issue concerning the transaction's legal basis or the conditions governing the relevant entitlement. In this case, the situation requires a separate legal response, which cannot be replaced by merely correcting the financial records.

Before Making a Correction... The Critical Question

Are we addressing an error in recording the transaction, a legal issue concerning the transaction itself, or both?

Identifying the nature of the error helps determine the appropriate corrective action, while avoiding confusion between correcting financial data and addressing the legal consequences of the underlying transaction.

Key Takeaway

What the records say about the past may change... without changing what actually occurred as a matter of law.

Government Financial Management Sector - Ministry of Finance

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