Outcome of the 2025/26 fee scale consultation

Summary

PSAA has published the fee scale for 2025/26 audits, following consultation with bodies and other stakeholders.

PSAA consulted on the 2025/26 fee scale proposals during September–October 2025, which included an average increase of approximately 4% comprising 2.8% to cover a contractual inflationary increase payable to audit firms for 2025/26 and a provisional 1.2% for additional audit work. This estimate was based on firms' submissions received since the 2024/25 scale was set. Following completion of our review, the final increase for additional audit work has been determined as 0.28%. This is in addition to the 2.8% inflation, giving an overall average fee increase of 3.08%. If any additional audit work is required beyond what is covered by the scale fee, we will review the associated costs in line with our established fee variation process.

Consultation responses raise understandable concerns about fee increases given the financial pressures on opted-in bodies. We received 126 substantive responses (25% of consultees), of which 122 (97%) were from opted-in bodies and four (3%) from other stakeholders. Of those who expressed a view, 80% agree with the proposed fee scale and 20% do not.

We recognise the significant financial and wider pressures on opted-in bodies and understand that fee increases are an unwelcome additional budgetary pressure. We only propose uplifts where necessary to reflect recurring work or contractual obligations.

We welcome the feedback we received to our consultation and thank all those who took the time to respond. The PSAA Board has reflected carefully on the consultation outcome and takes very seriously the views expressed. It has confirmed the final 2025/26 fee scale as proposed in the consultation.

Context and Reform

Audit work under this scale will apply from March 2026 to the statutory backstop date of 31 January 2027, as confirmed under the dates proposed in a statement on the local audit backlog published by the Ministry of Housing, Communities and Local Government (MHCLG) in July 2024 and confirmed in the Accounts and Audit (Amendment) Regulations 2024.

The backlog solution involves modified opinions on a scale that is unprecedented globally, however, the scale fees do not cover the costs associated with disclaiming audits or rebuilding assurance, as these costs cannot be reliably estimated in advance. We will therefore process fee variations for rebuilding assurance work, as this is not considered recurring activity.

On 10 July MHCLG published a technical note for local bodies with disclaimed opinions due to the backstop dates as set out in the Audit and Accounting Regulations 2024 and confirming arrangements for the distribution of £49 million in funding to support clearing the backlog and rebuilding assurance.The National Audit Office (NAO) issued its Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06. This relates to special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions. The LARRIGs are intended to support the reset and recovery of local audit in England. The FRC has issued a guide on the Local Audit Backlog Rebuilding Assurance which explains how rebuilding assurance after a disclaimed opinion may work in practice on local government audits.

We are working closely with MHCLG and other system partners to inform and support the implementation of these measures, including funding arrangements that reflect the scale and complexity of the required audit work.

We welcome the Government's intention to reform the local audit system through the proposed English Devolution and Community Empowerment Bill. Subject to its approval, the Bill would establish the Local Audit Office (LAO), representing a significant shift in fee-setting and system oversight.

The Bill introduces principles aimed at enhancing consistency, transparency, and responsiveness in fee arrangements. These may begin to inform PSAA's work ahead of the LAO's formal launch. If implemented, the reforms are expected to address key issues raised in the consultation, including fee transparency, audit complexity, and capacity challenges. By simplifying financial reporting and aligning fees more closely with the scope and risk profile of audited bodies, the proposed framework seeks to support a more consistent and sustainable audit system.

We have actively supported these reforms and continue to advocate for changes that improve audit delivery and value for money. We are working closely with stakeholders to ensure that the concerns raised in this consultation inform the development of the new framework.

Consultation outcome

Our consultation explained the proposed elements of the 2025/26 fee scale, comprising:

2025/26 fee scale elements
A) The scale fees for 2024/25
Plus:
B) Adjustments for specific opted-in bodies, where updated information is now available
C) A contractual adjustment of 2.8% for inflation

The additional fees are based on approved fee variations for previous years, the results of our research and discussions with public audit providers and audit firms. The inflation adjustment required for 2025/26 is set at a fixed point in time as specified in the contracts. The rate is based on the CPI 12-month rate most recently published prior to 1 April and for the 2025/26 audit year.

We held a webinar for bodies on 2 October to support our consultation process. We were joined by CIPFA who covered CIPFA/LASAAC's consultation on the 2026/27 Code of Practice on Local Authority Financial Reporting in the UK. The webinar slides and recordings are available on our website.

We received 126 responses to the consultation (25% of consultees), with 122 responses (97%) from opted-in bodies and 4 (3%) from national stakeholders. Of those who expressed a view, 80% confirmed they agree on balance with our proposals and 20% did not agree.

Overall consultation response

Support the proposed fee scale without reservations		Support the proposed fee scale with reservations		Total YES Agree with proposals		Total NO Do not agree	
Number	**% of total responses**	**Number**	**% of total responses**	**Number**	**% of responses**	**Number**	**% of responses**
28	22%	73	58%	101	80%	25	20%

Key themes in consultation responses

We thank all consultees for their considered feedback. The positive responses to the consultation generally recognise that additional audit work requires additional fees, however unwelcome these are. There is a broad range of views reflected in individual responses. The most common are:

1. Affordability and Financial Pressure – Many consultees report that the proposed 2.8% inflationary fee increase and the provisional 1.2% additional fees is difficult to absorb, particularly following significant uplifts in previous years. Councils, police, and fire services note that rising audit fees are diverting resources from frontline services and intensifying budgetary pressures.

2. Value for Money and Audit Efficiency - Respondents questioned whether fee increases are not matched by improvements in audit quality, timeliness, or efficiency, and call for greater transparency in how additional fees are calculated.

3. Proportionality of Audit Scope - Consultees emphasise the need for a more proportionate audit approach focused on material issues, expressing frustration over audit effort spent on areas such as asset valuations and pensions, which are perceived as adding limited value. Consultees called for a more risk-focused approach.

4. Transparency and Predictability of Fees - Bodies request clearer breakdowns of fee components, particularly for recurring and additional audit work, and greater visibility over future fee variations, especially in relation to new standards such as IFRS 16 and ISA 600.

5. Impact of Audit Backlogs and Disclaimed Opinions - Several responses highlight the financial burden of disclaimed audits and rebuilding assurance and urged PSAA to challenge additional fees where delays are not attributable to the audited body.

6. Local Audit Reform and Systemic Issues - Many respondents support ongoing reforms to the local audit framework, including the creation of the LAO and simplification of financial statements, with the expectation that these changes will reduce complexity and cost.

7. Differentiation by Size and Complexity - Smaller authorities and bodies with simpler operations argued that fees should better reflect their scale and risk profile, and shared services and group structures are not adequately considered.

8. Expectations for Auditor Performance - Respondents expect higher fees to be accompanied by improved auditor resourcing, sector knowledge, and engagement, and raised concerns about the use of junior or overseas staff with limited understanding of local government accounts.

9. Support for Consolidation of Recurring Fees - Many bodies welcome the inclusion of recurring audit work within the scale fee, which supports financial planning, but seek more timely and detailed communication about what is included.

10. Call for Greater Engagement and Accountability - Consultees request more meaningful engagement with PSAA beyond annual consultations, including mechanisms to challenge fees and provide feedback on audit service quality.

PSAA Response

PSAA takes the consultation feedback seriously and remains committed to delivering a fair, transparent, and proportionate fee framework. While PSAA does not set audit standards or determine the scope of audit work, we work closely with system partners including audit firms, regulators, and the NAO to support improvements in audit timeliness and quality. Through our monitoring arrangements and contract management, we seek to ensure that audit services delivered to opted-in bodies meet expected standards and provide value for money.

We continue to advocate for a more proportionate audit scope and support CIPFA's initiative to make financial statements more accessible and relevant. These efforts will help ensure audit effort is focused on material risks and aligned with sector needs.

While some consultees suggested anticipating future audit requirements within contracts, the current framework requires PSAA to set fees based on the Code of Audit Practice. To safeguard public funds, contracts do not include contingencies for future changes that cannot be quantified at the time of award. Any changes in audit scope must therefore be reflected in corresponding adjustments to audit fees.

We recognise the expectation that higher fees should lead to a more efficient audit experience. Addressing systemic challenges requires coordinated action across the sector, alongside appropriate funding and capacity. The LAO is expected to play a key role in supporting this objective and enhancing consistency in fee-setting.

We remain committed to improving transparency and predictability in fee structures. The inclusion of recurring audit work within scale fees supports financial planning, and we will continue to provide clearer breakdowns and guidance on future impacts from new standards. We are also strengthening engagement with opted-in bodies through more regular dialogue and feedback mechanisms.