Public Sector
Audit Appointments

Consultation on fee variations for audit firms' backlog solution project costs

July 2026

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

From 2018/19, PSAA became responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Contents

Summary

1 This consultation invites comments on our proposal for a one-off standardised fee variation relating to audit firms' project costs arising from the local audit backlog solution, with the costs counting towards MHCLG's funding route for that solution.

2 The Local Audit (Appointing Person) Regulations 2015 provide the statutory framework for setting and varying fees for bodies. This consultation is being undertaken under Regulation 17(2A) which allows us to charge a larger or smaller fee to all or a group of bodies where audit work was, or is likely to be, substantially more or less than envisaged by the relevant scale fee. Regulation 17(2B) requires us to consult the bodies affected and the relevant local auditors before charging the fee.

3 This consultation forms part of the wider local audit reset and recovery arrangements following the statutory backstop dates introduced to address the audit backlog. These arrangements were set out in the statement on the local audit backlog published by the MHCLG in July 2024 and confirmed in the Accounts and Audit (Amendment) Regulations 2024.

4 The proposed fee variation relates only to firms' project costs for the work required to deliver the backlog solution and to prepare building-back of assurance. It does not cover work on individual audit opinions or build-back audit work which will be considered through normal fee variation arrangements.

5 MHCLG has provided the following statement on firms' project costs, which is reflected in their letter to relevant Section 151 Officers issued on 26 June 2026 on rebuilding assurance, audit fees and the build-back grant:

> *'MHCLG has also been working closely with PSAA on firms' project costs as part of their build-back work. These costs are part of the wider work needed to support an effective building-back of assurance, and it is reasonable for auditors to be reimbursed for necessary project costs that are not directly attributable to individual audits. This position is underpinned by clear legal advice.*
>
> *The only mechanism to reimburse the audit firms for these costs is to charge them to relevant bodies through PSAA's fee variation process, and PSAA will consult shortly on the details of how this will work and which bodies will be affected. All fee variations are scrutinised and approved by PSAA before they are billed to local bodies. These project costs will be included in the review of the grant allocation formula in the autumn. This will ensure that eligible project costs charged to bodies are funded in build-back grant payments and that the funding model overall remains fair and appropriate.'*

6 The total project costs to be charged under this proposal is £4.5m based on information submitted by firms and reviewed by us. We propose to charge bodies that received a disclaimed and/or qualified opinion due to the backstop dates a one-off fee variation of 7% of the 2024/25 scale fee. This approach retains proportionality by linking the charge to the size and complexity reflected in each body's scale fee rather than applying a fixed amount to all bodies and levies the fee only on those bodies that are receiving relevant MHCLG funds.

7 MHCLG's on-going funding route is to reimburse bodies for eligible amounts invoiced by firms that relate to the backlog solution. MHCLG published a technical note on 10 July 2025

confirming arrangements for distributing funding to support clearing the backlog and rebuilding assurance.

8 The consultation period is shorter than our annual scale fee consultation because this is a targeted, one-off fee variation for a defined group of bodies, backed by MHCLG's funding route for eligible costs.

9 This proposal does not amend the 2024/25 scale fee but is a one-off standardised fee variation.

10 Subject to the outcome of the consultation, we will work with MHCLG and firms on the timing of invoicing and reimbursement.

11 Our Board will consider consultation responses carefully and publish the outcome by 17 August 2026.

Responding to the consultation

We welcome comments on the proposals in this consultation. Please provide your feedback at:

https://www.surveymonkey.com/r/L6RJH3W

The consultation will close on **Monday 20 July 2026 at 5pm.**

The firms' project cost fee variations

Introduction

12 Since 2019, the local audit framework has faced significant challenges, including a growing backlog of outstanding audits and capacity pressures across the system. The Government has responded by introducing statutory backstop dates and wider reform measures to reset and recover the local audit system. The English Devolution and Community Empowerment Act 2026 includes provision to establish the Local Audit Office to help oversee and coordinate the local audit system in England.

13 The backlog solution required audit firms to respond to globally unprecedented circumstances. They had to develop a new approach to enable them to deliver the solution, including preparing for the subsequent build-back of assurance. At the time firms bid for our current audit contracts in 2022 they did not know, and could not reasonably have foreseen, the nature, scale and complexity of this work, and therefore could not build these costs into their proposals.

Firms' project cost fee variations

14 Examples of firms' project costs include:

- developing approaches to issuing disclaimed opinions, drawing on expertise from across their organisation;
- developing their approaches to building back assurance;
- developing documentation and guidance; and
- developing and delivering internal training on their new approach.

Summary of Proposal

15 The proposed fee variation is summarised below.

Proposal	One-off standardised fee variation for firms' project costs
Bodies in scope	Bodies that received a disclaimed and/or qualified opinion due to the backstop dates
Calculation	7% of 2024/25 scale fee
Total proposed charge	£4.5m
Purpose of charge	Recovery by audit firms' project costs associated with disclaimed opinions and preparation for build-back assurance

16 The proposed calculation for each audit is available here.

Funding and invoicing

17 Subject to the outcome of the consultation, we propose that bodies in scope are to be invoiced for the appropriate fee variation, with MHCLG providing funding directly to bodies through build-back grant payments following its review of the grant allocation formula in the autumn.

18 This is a one-off standardised fee variation relating to project costs arising from the backlog solution. Subject to the outcome of this consultation, where a body's 2024/25 fee variation statement has already been issued, we will issue a revised statement including the determined project cost fee variation. Where the 2024/25 fee variation statement has not yet been issued, the determined project cost fee variation will be included in that statement.

Next steps

19 We welcome comments from bodies and other stakeholders on the proposals outlined in this consultation. The closing date for comments is 5pm on Monday 20 July 2026.

20 Please respond to the consultation using the survey provided: https://www.surveymonkey.com/r/L6RJH3W

21 Information about this consultation is available on our website.

22 If you have any questions about the consultation please send them to: workandfeesconsultation@psaa.co.uk.

23 We will consider carefully the responses before finalising our approach, which we will publish by 17 August 2026.

24 Subject to the outcome of this consultation, the fee variation will be included in the 2024/25 fee variation statement as explained in paragraph 18. Firms will then invoice bodies for the agreed fee variation.

25 MHCLG will continue to communicate directly to bodies on the funding for the audit fee costs of the backlog solution.

26 If you have comments about the way the consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.