Public Sector Audit Appointments

Consultation outcome on Firms’ Project Cost Fee Variations

July 2026

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

The Secretary of State specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

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Summary

1 We consulted on a one-off fee variation to recover audit firms' project costs arising from the local audit backlog solution. MHCLG has confirmed that build-back grant payments will fund eligible costs charged through our fee variation process. The final fee variation applies to bodies that received a backstop-related disclaimed or qualified opinion. It equals 7% of each audit's 2024/25 scale fee and totals £4.5m.

2 The consultation ran from 6 to 20 July 2026. We invited 282 bodies, six audit firms and 26 national stakeholders to respond. We received 71 responses: 68 from bodies, two from audit firms and one from a national stakeholder. The response rate was 23%.

3 Most respondents supported the proposal. Fifty-seven respondents, or 80%, agreed or agreed with reservations. Fifty-four respondents, or 76%, supported using 7% of the 2024/25 scale fee rather than a flat fee.

4 Respondents asked for greater assurance on funding, fairness, our review of the costs and safeguards against double recovery. The Board considered these reservations in reaching its decision and agreed that we should address them through clearer supporting information. The frequently asked questions published alongside this outcome explain our cost review, MHCLG's funding arrangements, the allocation method and the controls we will apply to reduce the risk of double recovery.

5 Funding certainty was a common theme in responses. We therefore asked MHCLG to clarify how the project costs would be treated through its build-back grant arrangements. MHCLG restated its position:

6 "MHCLG has restated its position that it will incorporate the project change costs into its review of the grant allocation formula this autumn so that the project change costs charged to bodies are reflected in future build-back grant payments."

7 We will now issue or revise 2024/25 fee variation statements. Firms will then invoice bodies for the amounts determined by us.

8 We thank everyone who responded. We have used the feedback to shape the final approach and the frequently asked questions published with this outcome.

Context and funding

9 The backlog solution required firms to develop methods for an unprecedented volume of disclaimed opinions and to prepare for the build-back of assurance. Firms did not know, and could not reasonably have foreseen, the nature, scale or complexity of this work when they bid for the current contracts in 2022.

10 The fee variation covers central project activity, including methods, guidance and training. It does not cover work on individual audit opinions or body-specific build-back work. We will assess that work separately through the normal fee variation process.

11 MHCLG confirmed its position in a letter to affected Section 151 Officers on 26 June 2026. The letter covered rebuilding assurance, audit fees and the build-back grant. MHCLG confirmed that the fee variation process is the only route for reimbursing firms and that the autumn review of the grant formula will include eligible project costs.

12 We reviewed firms' submissions before the consultation and found the £4.5m total reasonable. We will keep these central project costs separate from future claims for body-specific audit work.

Consultation outcome

13 The consultation asked two main questions and Table 1 summarises the responses. Question 3 asked whether respondents agreed with recovering firms' project costs through a one-off fee variation charged to bodies that received a backstop related disclaimed or qualified opinion. MHCLG has confirmed that these charges will be included in its review of the grant allocation formula so that they are reflected in future build-back grant payments. Question 4 asked whether we should calculate the fee variation as 7% of the 2024/25 scale fee rather than use a flat fee.

Table 1: Consultation response summary

	No. of replies			Analysis of question 3				Analysis of question 4			
Respondent type	Invited	Replies	Reply %	Support	Oppose	% Support	% Oppose	Support	Oppose	% Support	% Oppose
Bodies	282	68	24%	55	13	81%	19%	52	16	76%	24%
Audit Firms	6	2	33%	2		100%	0%	2		100%	0%
National Stakeholders	26	1	4%		1	0%	100%		1	0%	100%
Total	314	71	23%	57	14	80%	20%	54	17	76%	24%

14 Support was high for both the overall proposal (80% support or support with reservations) and the calculation method (76%). Comments on the calculation focused on whether the allocation should reflect work completed before disclaimer, the body's complexity or the number of disclaimed opinions.

Key themes from responses

15 The responses raised seven main themes:

Recovery mechanism – Many respondents did not challenge the view that firms incurred additional costs in responding to the backlog solution and that a mechanism is needed to recover those costs. Several also recognised that firms could not reasonably have foreseen the work when they bid for the contracts.

Responsibility for backlog costs – Many bodies said they prepared their accounts on time but entered the backlog because auditors lacked capacity. Some argued that government and audit firms should bear more of the cost. Note that MHCLG has stated that it will cover the cost.

Funding certainty – Funding certainty was a common theme. Many respondents sought assurance that MHCLG's grant would fully reimburse the charge, leaving bodies with no net cost. They also requested clear information on the timing and operation of the grant arrangements.

Transparency of the £4.5m total – Respondents asked how firms calculated the costs, how PSAA challenged the submissions and why PSAA judged the costs reasonable. They expect the charge to provide value for money.

Percentage method and 7% level – Most respondents preferred a percentage of scale fee to a flat fee because it reflects the relative scale and complexity of bodies. Some questioned the 7% level or suggested other allocation factors.

Double recovery – Respondents asked PSAA to keep central project costs separate from body-specific audit and build-back work. They also asked PSAA to stop firms claiming the same costs again through future fee variations.

Future build-back costs – One respondent asked for clearer forecasts of future body-specific build-back costs. These costs fall outside this fee variation but affect bodies' financial plans.

PSAA response

16 We considered every response and have retained the proposed approach. The consultation showed broad support, while identifying areas where bodies need greater assurance: funding, cost scrutiny, allocation and safeguards against double recovery.

17 We have retained the 7% calculation because it provides a consistent and proportionate way to allocate the £4.5m total. The scale fee broadly reflects the relative size and complexity of each audit. The charge only applies to bodies that will receive funding from MHCLG.

18 Before consultation, we reviewed each firm's submission using a common approach that included our published 2024/25 fee variation rates chargeable to bodies. We assessed the work claimed, staff time and grades, the number of affected audits, the number of disclaimed audit years, average costs per body and significant differences between firms. This work gave us sufficient assurance that the costs included in the £4.5m total were reasonable and fair.

19 The costs relate to central project work, including the development of audit approaches, training, guidance, portfolio assessment and resource management. Firms cannot reliably attribute these costs to individual audits. The amount of audit work completed before a body received a disclaimed opinion therefore does not provide a sound basis for allocating the central costs for the disclaimer process.

20 We will apply controls to identify and prevent double recovery. Firms are expected to use the standard templates we developed to provide a total build-back cost estimate for each individual audit. Once the auditor has completed its assessment, the firm is expected to share the estimate with the relevant body, and we will share it with MHCLG. Sharing the estimate will give each body early sight of the expected cost and allow it to discuss the scope and assumptions with its auditor. A firm must explain and evidence any significant difference between its estimate and later fee variation proposal before we determine the fee.

21 We will assess build-back fee variations already received and future proposals against the estimates, costs covered by this fee variation and average costs across firms. We will investigate significant differences, require supporting evidence and exclude any costs already recovered through this fee variation.

22 Audit-level estimates, cross-firm comparisons, evidence checks and our established review and determination process provide a sound basis for identifying and excluding duplicate costs.

23 MHCLG has restated that build-back grant payments will fund eligible project costs charged through this process. MHCLG controls grant allocations and payment timing. We will continue to work with MHCLG and update bodies when further information becomes available.

24 We have published frequently asked questions alongside this outcome which are also available on our website. The FAQs explain the work covered, our review of firms' submissions, audit complexity and rate comparisons, MHCLG's funding arrangements, the

distinction between central and body-specific work, and the controls used to reduce the risk of double recovery.

Final approach and next steps

25 The Board confirmed the following approach:

- we will recover firms' project costs through a one-off standardised fee variation;
- the fee variation will apply to bodies that received a backstop-related disclaimed or qualified opinion; and
- the charge will equal 7% of each body's 2024/25 scale fee.

26 Where a body's 2024/25 fee variation statement has already been issued, PSAA will issue a revised statement including the agreed project cost fee variation. Where the 2024/25 fee variation statement has not yet been issued, the agreed project cost fee variation will be included in that statement.

27 Bodies can find their 2024/25 scale fee and individual project cost calculation on the PSAA website. MHCLG will continue to update bodies on build-back grant funding.

Further information

28 The consultation outcome, individual body calculations and related documents are available on the PSAA website. For questions about the fee variation, contact workandfeesconsultation@psaa.co.uk. For questions about build-back grant allocations or payment timing, contact MHCLG through its published local audit contact route.