Consultation outcome on Firms Project Cost Fee Variations

About these FAQs

These FAQs address the main points raised during our consultation. They explain the final approach, MHCLG funding, the work covered, our cost review and safeguards against double recovery.

No.	Question	Answer
1	What does the fee variation cover?	The fee variation covers central project work that firms carried out to support the backlog solution. This includes developing approaches to disclaimed opinions and build-back assurance, preparing guidance and documents, training audit teams, assessing portfolios, and managing added risks and resources. Firms cannot assign this work reliably to individual audits.
2	What does the fee variation not cover?	It does not cover work on an individual audit opinion or body-specific build-back assurance. Firms must submit those costs separately through the normal fee variation process. We will review the evidence and determine the fee before a firm can charge a body.
3	What work is included in firms' project costs?	Firms reported costs in four areas: initial disclaimer work for 2022/23 and earlier audits; initial disclaimer work for 2023/24 audits; development work for build-back assurance for 2023/24 audits; and development work for build-back assurance for 2024/25 audits. Each area covered relevant methods, internal training, standard documents and guidance, portfolio assessment, and risk and resource management.
4	Why did firms incur these costs?	The backlog solution required firms to respond to an unprecedented volume of disclaimed opinions and prepare for the later 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.
5	Why should bodies pay when many prepared their accounts on time?	We recognise that many bodies met their reporting duties and entered the backlog because of wider capacity and system issues. The fee variation does not assign fault to a body. The Appointing Person Regulations provide the route for recovering eligible audit costs, while MHCLG's build-back grant provides the funding route for affected bodies.
6	Why do audit firms not absorb the costs?	The costs arose from a system-wide solution that firms could not price into their 2022 bids. We reviewed the submissions and found the included costs reasonable.

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		MHCLG also confirmed that auditors should receive payment for necessary project costs that do not relate directly to individual audits.
Costs, transparency and PSAA review		
7	How did PSAA arrive at the £4.5m total?	Each firm submitted a project cost return using a common template. We reviewed the work, time and rates claimed. We challenged firms where we needed more evidence and included only costs that it assessed as reasonable and linked to the backlog solution.
8	How has PSAA supported transparency and assessed whether the costs are reasonable and fair?	We reviewed the work claimed, the number of affected audits, the number of audit years outstanding, average costs per body, staff time and rates, and differences between firms. We challenged significant differences and included only costs linked to the backlog solution that we assessed as reasonable. We have published the total cost, the work covered, the allocation method and each body's calculation. Detailed firm returns contain commercially sensitive staffing, rate and operational information and have not been published.
9	How did PSAA take account of audit complexity?	We grouped the affected audits by the number of audit years subject to disclaimed opinions. A larger number of outstanding years generally requires more planning, coordination and preparation for build-back. PSAA compared each firm's portfolio profile with its disclaimer and build-back costs and average cost per affected body. It also reviewed the number of affected bodies, the type of work, staff time and rates, and significant differences between firms. The final 7% allocation does not measure each body's build-back complexity because it covers central project work. We will assess body-specific complexity through the normal fee variation process.
10	How did PSAA compare the rates used by firms?	Our standard project cost template included the published 2024/25 fee variation rates chargeable to bodies. Firms completed the template using those rates. We then reviewed the staff time, grades and costs submitted and compared the results across firms to assess whether they were reasonable and consistent.
11	Why has PSAA not published each firm's detailed cost return?	The returns contain commercially sensitive staffing, rate and operational information. We have instead published the total charge, the work covered, the allocation method and each body's calculation. We consider that this gives bodies the

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		information needed to understand the fee variation while protecting sensitive detail.
12	How will PSAA ensure value for money?	We reviewed the submissions and will determine the fee variation before firms invoice bodies. PSAA will continue to challenge any separate fee variation submitted for individual audit work.
Allocation and the 7% calculation		
13	Why has PSAA used 7% of the 2024/25 scale fee?	A 7% charge recovers the £4.5m total from the bodies in scope. The scale fee broadly provides a consistent measure of each body's audit size and complexity.
14	Why did PSAA not use a flat fee?	The percentage method keeps the charge proportionate to the scale fee and received more support than opposition in the consultation.
15	Why does the calculation not reflect work completed before disclaimer?	The fee variation covers central project work, not audit work completed at each body. Firms cannot assign central methods, guidance and training reliably to individual audits. Audit progress therefore does not provide a sound basis for allocation.
16	Why does the same percentage apply to bodies with different circumstances?	The scale fee already reflects the relative size and complexity of each audit. One percentage gives a consistent method while producing different cash amounts for different bodies. Other factors would not allocate central costs more reliably.
17	Which bodies are in scope?	The fee variation applies to bodies that received a backstop-related disclaimed or qualified opinion and fall within the agreed funding route. PSAA worked with MHCLG to align the final list with funding eligibility.
18	Where can a body find its calculation?	PSAA has published each body's project cost fee variation calculation with the consultation outcome. The calculation equals 7% of the body's 2024/25 scale fee.
MHCLG funding		
19	Will MHCLG fund the fee variation?	MHCLG has confirmed that build-back grant payments will fund eligible project costs charged through PSAA's fee variation process. MHCLG included these costs in its review of the grant allocation formula. MHCLG stated: *"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*

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		bodies are reflected in future build-back grant payments."
20	Will a body face a net cost?	MHCLG has stated that build-back grant payments will fund eligible project costs. The timing of a firm's invoice and the grant payment may differ. MHCLG controls the grant process and will provide information on allocations and payment timing. MHCLG stated: *"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."*
21	Why does MHCLG not pay firms directly?	MHCLG has confirmed that it does not have a lawful route to pay audit firms through us. Having decided to fund eligible project costs, MHCLG will provide the funding to bodies through its build-back grant arrangements. We will determine the fee variation, after which firms will invoice the relevant bodies.
22	Who should answer questions about grant eligibility or payment timing?	MHCLG sets the grant rules, allocations and payment timetable. Bodies should direct grant questions to MHCLG. We can answer questions about the fee variation, calculation and determination process.
Invoices, statements and accounting		
23	How will the fee variation appear on the 2024/25 fee variation statement?	We will include the project cost fee variation in each body's 2024/25 fee variation statement. If We have already issued the statement, we will issue a revised statement. Otherwise, it will include the charge in the original statement.
24	When will firms invoice bodies?	Firms may invoice bodies after we issue the final determination. We will work with firms and MHCLG to provide clear information on invoicing and grant funding.
25	Does this change the 2024/25 scale fee?	No. The charge is a one-off standardised fee variation. It does not amend the scale fee or create a recurring uplift.
26	How should the cost be described in audit reporting?	The fee variation relates to audit firms' project costs linked to the backlog solution. Bodies and auditors should apply the relevant accounting and reporting requirements. Our determination will distinguish the charge from body-specific audit work.

No.	Question	Answer
Other fee variations and double recovery		
27	What safeguards will PSAA use to reduce the risk of double recovery?	When we review firms’ proposals for fee variations we will distinguish between central project costs, such as firm-wide methodologies, guidance and training, and work carried out on an individual body’s audit. Firms must 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 should share the estimate and supporting assumptions with the relevant body, and we will share the estimate with MHCLG. This will give bodies early sight of the expected costs and allow them to discuss the scope and assumptions with their auditor. We will use each estimate as a baseline when reviewing build-back fee variations already received and future proposals. Our review will include: • a scope check to exclude firm-wide work already covered by the central project cost fee variation; • an estimate check to compare the proposal with the expected work, hours, staff grades and timing; • an evidence check to confirm what work was completed, why it was needed and how the cost was calculated; and • a cross-firm comparison of similar work, taking account of body type, audit complexity, the number of disclaimed years and the work undertaken. Cross-firm averages will act as a challenge indicator. We will investigate significant differences and require firms to explain and evidence them. We will also consider the body’s comments. If the evidence does not support all or part of a proposal, we will seek further information and reduce or reject any unsupported amount. We will exclude costs already recovered through the central project cost fee variation before determining the fee.

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28	Can firms still submit fee variations for body-specific build-back work?	Yes. This fee variation does not cover work carried out on an individual body's audit. A firm may submit a separate fee variation, but we will review the scope, evidence and cost before determining the fee.
29	Does the fee variation guarantee that a body will regain assurance by a set date?	No. The fee pays for central project work that enabled firms to respond to the backlog and prepare for build-back. Timing depends on the work required at each body, the quality and availability of evidence, and body and auditor capacity.
30	Will PSAA provide clearer forecasts of future fee variations?	We publish an annual fees research and information paper to help bodies understand the main factors likely to affect audit fees and future fee variations. The paper draws on information from firms, approved fee variations, changes in audit requirements and our wider fees research. The information paper for 2024/25 audits is available on our website. The paper provides a sector-wide view rather than a forecast for each body. Individual fee variations depend on the risks, evidence and work required for each audit.
31	Will bodies receive estimates of future body-specific build-back fees?	Firms are expected to prepare a total build-back cost estimate for each individual audit and share it with the relevant body and MHCLG. This will give bodies early sight of the expected costs and the assumptions supporting them. The estimate will reflect the evidence, risks and work expected for that audit. We will use the estimate as a baseline when reviewing fee variation proposals, although the final cost may change if the scope, risks or circumstances of the audit change.

Further information

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.