Public Sector Audit Appointments

Consultation on the 2026/27 audit fee scale

Opted-in local government, fire, police and other bodies

September 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.

Contents

Summary

1 This consultation invites comments on our proposals for setting the fee scale for 2026/27 audits of opted-in bodies.

2 We are required under local audit regulations to consult on and set the 2026/27 fee scale by the end of November 2026. Audit work under this fee scale is likely from February 2027 to the backstop date 30 November 2027 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.

3 In summary, our proposed 2026/27 fee scale includes a 3.0% increase on the 2025/26 scale fees to meet the contractual inflationary increase payable to audit firms for 2026/27. We also propose body-specific adjustments where there is evidence that additional audit work is recurring, including work relating to IFRIC 14 pension asset surpluses. We have considered the impact of wider accounting and auditing developments but do not currently have sufficient evidence to support further scale-fee adjustments. Once sufficient evidence is available to demonstrate a recurring and quantifiable impact, the LAO may wish to consider how such costs should be reflected within its future fee regime.

4 For some bodies we are proposing to update the scale fee where there are confirmed changes in ongoing audit work since we set current scale fees. Incorporating fee increases into scale fees provides more certainty and without this consolidation such changes would be payable as fee variations.

5 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. This includes creating the Local Audit Office (LAO) to strengthen oversight, raise audit standards, and promote greater transparency. We have been closely engaged in these developments and remain committed to working with partners to support their successful delivery.

6 We support reforms to accounting and auditing frameworks that reduce the volume of local audit work needed to deliver a more proportionate Code of Audit Practice (Code) compliant audit. We welcomed MHCLG's actions to address delayed local audit opinions and expressed our strong support for the Government's commitment to overhaul the local audit system to enable bodies and taxpayers to get better value for money.

7 We recognise the significant financial and wider pressures on bodies and understand that additional audit fees are an unwelcome additional budgetary pressure, and only propose increases where additional recurring work is required, or in line with contractual requirements. We prepare our information paper for 2025/26 audits to provide information to audited bodies on changes to auditing and accounting standards and outline the impact that they might have on audit fees. This is intended to support discussions between bodies and auditors on fee variations for 2025/26 audits and provide more context for the 2026/27 Scale Fee

consultation. It also provides information on how audited bodies can work to mitigate against additional audit fees.

8 We will process fee variations for audit work to rebuild assurance as this is not recurring work. MHCLG's ongoing funding arrangement reimburses local bodies for eligible costs invoiced by audit firms for rebuilding assurance work arising from the backlog solution. Its technical note, published on 10 July 2025 and updated on 6 January 2026, sets out the funding arrangements for clearing the backlog and rebuilding assurance at bodies that received disclaimed opinions because of the backstop dates in the Accounts and Audit Regulations 2024.

9 The National Audit Office, (NAO), issued its Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06. The LARRIGs are intended to support the reset and recovery of local audit in England. They also issued Supplementary Guidance Note (SGN) 05 on 15 December 2025. This provides additional guidance to support auditors when considering the impact of limited or no assurance on the classification between usable and unusable reserves in local authority financial statements. The Financial Reporting Council, (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. Earlier this year, we also consulted on audit firms' project costs arising from the local audit backlog solution, and published FAQs in response to feedback from bodies.

10 More detail on the 2026/27 fee scale proposals is set out in the next section of this consultation. We are running a webinar for bodies on Monday 28 September from 2.30pm to 3.30pm. The webinar will explain the elements of the proposed 2026/27 fee scale and offer you the opportunity to ask questions which may inform your response to the consultation. We encourage you to send questions in advance to laqf@psaa.co.uk. The second part of the webinar will provide an update on the development of the LAO and address questions submitted before and during the session.

11 Our Board will consider consultation responses carefully before publishing the final 2026/27 fee scale on our website by 30 November 2026.

Responding to the consultation

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

https://www.surveymonkey.com/r/W8ZQSG6

The consultation will close on **Friday 9 October 2026 at 5pm.**

The 2026/27 fee scale

Introduction

12 The Local Audit (Appointing Person) Regulations 2015 and the Local Audit (Appointing Person) (Amendment) Regulations 2022 require that PSAA, as an appointing person, must specify the scale or scales of fees for the audit of the accounts of authorities before 1 December of the financial year to which the scale of fees relates.

13 We consult in September so that our fee proposals are based on the latest information available and to provide bodies with their proposed fees for budget planning.

14 We set the fee scale each year based on the income we require to meet our own and the audit contract costs. We regularly review the efficiency of our services to minimise our call on the public purse.

15 Changes to IFRS 16 (Leases) and ISA (UK) 600 (Group Audits) are both applicable to local government audits from 2024/25. Changes to the Code of Accounting Practice on the application of IAS 16 (Property, Plant and Equipment), IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) are applicable to local government audits from 2025/26. We concluded that we are unable to consolidate additional fees into the fee scale at this point as the fees for individual bodies will be highly dependent on a body's arrangements and the level of work required. Once sufficient evidence is available to demonstrate a recurring and quantifiable impact, the LAO may wish to consider how such costs should be reflected within its future fee regime.

16 Our fees research considered the impact of other changes in audit and accounting requirements applicable for the first time for 2025/26 and 2026/27. We do not currently expect the amendments to the Code of Practice on Local Authority Accounting to have a significant impact on audit fees across the sector. AGN 03, Auditors' work on Value for Money arrangements, may result in significant additional audit costs where auditors identify significant weaknesses in arrangements; however, the impact will depend on the circumstances of individual bodies and therefore is not suitable for incorporation into the fee scale at this time.

2026/27 fee scale elements

17 In summary, we propose that the fee scale for 2026/27 will be built up as follows:

2026/27 fee scale: proposed elements
A) The scale fees for 2025/26 Plus: B) Adjustments for specific bodies, where updated information is now available C) A contractual adjustment of 3.0% for inflation

18 Further information on each element is provided below.

A) The scale fees set for 2025/26

19 We use the previous year's scale fees as the starting point for the next year and then consider any necessary adjustments.

B) Adjustments for specific bodies

20 Delayed and disclaimed audits have limited the information available to set the fee scale, sometimes for multiple years. Where the need for additional or reduced recurrent work is now clear from approved fee variations or other information, we need to update scale fees. This has the benefit of providing clarity on expected fees before audit work is undertaken and reduces the need for ongoing fee variations.

21 We have considered information available since we published the 2025/26 fee scale in November 2025 and have identified 395 audits (74%) where fee increases or reductions are required for recurrent audit work, for instance changes to Group structures.

22 We have also reviewed the bodies we identified as special cases when we set the 2025/26 fee scale and considered whether the additional fee adjustment remains appropriate. Special cases are bodies where local circumstances require additional audit effort not adequately reflected through the standard fee model. We have identified 7 additional special cases for 2026/27.

23 We discussed the potential audit implications of the Government's recent LGPS "Fit for the Future" reforms, and the introduction of The Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 with audit firms. However, pending greater clarity on the practical implications of these changes, we have insufficient evidence to quantify any recurring audit impact. We therefore propose no scale fee adjustment at this stage.

24 Following the 2025/26 Triennial pensions valuations, many bodies are again reporting a gross pension asset surplus and must consider the accounting requirements of IFRIC 14. This follows the prior Triennial valuation in 2022/23, when market movements and changes in actuarial assumptions arising from the Covid-19 pandemic resulted in significant changes to pension fund positions, with

bodies typically remaining in a surplus position for the following two years. As this work is expected to continue while surpluses remain, we propose a recurring fee increase rather than annual fee variations.

25 We are monitoring proposed revisions to Auditor Guidance Note 01 (AGN/01) regarding Public Interest Entities (PIEs). We do not expect the revisions to take effect in time to influence the 2026/27 fee-setting process. We therefore propose no amendments to PIE fees at this stage. If future revisions reduce audit work required for 2026/27, we will reflect this through negative fee variations.

C) Adjustment for inflation

26 The 2022 audit contracts specify that indexation of the firms' remuneration will apply from 1 April 2024 using the Consumer Prices Index (CPI) 12-month rate published by the Office for National Statistics (ONS) prior to 1 April. The applicable rate is 3.0% (published 25 March 2026). The increase applies to 2026/27 scale fees and the hourly rates for additional work submitted as fee variations.

2026/27 additional fee hourly rates

	Partner/ Director	Senior Manager/ Manager	Senior Auditor	Other staff
2026/27 audits	£453	£250	£162	£124

Summary of Proposal

27 We will write to each body during the consultation period setting out their proposed scale fee based on these elements. The example below illustrates how the scale fee will be made up:

Calculation example – 2026/27 scale fees

Example (unitary council)		
A)	2025/26 scale fee	£300,000
B)	Add/remove: changes in ongoing fee variations (specific bodies only, not applicable to all audits)	£3,500
	Subtotal 2026/27 scale fees plus recurring additional fees	£303,500
C)	Contractual indexation (3.0% of subtotal)	£9,105
Total scale fee for 2026/27		£312,605

Additional information

Statement of responsibilities

28 The statement of responsibilities of auditors and audited bodies sets out the expectations on which scale fees are based. The statement effectively represents the terms of engagement between appointed auditors and bodies and summarises their respective responsibilities.

29 Scale fees are based on the expectation that bodies can provide the auditor with complete and substantially accurate financial statements and supporting working papers within agreed timeframes. Local fee variations may be needed where a body is unable to fulfil these requirements.

30 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations in relation to their responsibilities are ineligible for a fee variation.

Value added tax

31 Individual audit fees under the 2026/27 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20%, on all work done.

Next steps

32 We welcome comments from bodies and other stakeholders on the proposals outlined in this consultation. The closing date for comments is **5pm on Friday 9 October 2026**.

33 Please respond to the consultation using the survey provided: https://www.surveymonkey.com/r/W8ZQSG6

34 We are running a webinar for bodies on Monday 28 September from 2.30pm to 3.30pm to support the consultation. Invitations will be sent out around 14 September. If you are a s151 Officer or an Audit Committee Chair and have not received your invitation, please contact us to find out how to register.

35 Information about this consultation and the 2026/27 fee scale is available on our website.

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

37 We will consider carefully the responses to this consultation in setting the 2026/27 fee scale, which we will publish by 30 November 2026.

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

FAQs

No	Question	Answer
1	Why are audit fees increasing in 2026/27?	The proposed 2026/27 fee scale applies a 3.0% contractual inflationary increase to 2025/26 scale fees. Some bodies will also receive an adjustment where evidence shows a recurring increase or reduction in audit work. Examples include changes to group arrangements, special case factors, and recurring work relating to pension asset surpluses. Including this recurring work in the scale fee gives bodies greater cost certainty and reduces the need for annual fee variations.
2	How will PSAA apply the 3.0% contractual increase?	We will first add or remove any approved recurring body-specific adjustment from the 2025/26 scale fee. We will then apply the 3.0% contractual increase to the resulting subtotal. The calculation example in this consultation illustrates this approach.
3	Why might my organisation's fee differ from that of a similar body?	Scale fees reflect the audit work expected at each body. Two otherwise similar bodies may have different fees because of differences in group arrangements, pension positions, audit risk, or other local circumstances. PSAA reviews the evidence supporting each body-specific adjustment before including it in the proposed fee.
4	When will my organisation receive its proposed fee?	We will write to each opted-in body during the consultation period with its proposed 2026/27 scale fee. The notification will show the proposed fee and any body-specific adjustment included in it. We will publish the final fee scale after considering consultation responses and obtaining Board approval.
5	Why are some costs included in the scale fee while others are dealt with through fee variations?	We include work in the scale fee where evidence shows that it is recurring and can be estimated reliably. We use fee variations where work is temporary, depends on a body's individual circumstances or cannot be quantified when the scale fee is set. This includes rebuilding assurance work and may include additional work arising from accounting or auditing changes where the effect depends on local arrangements.
6	Can my organisation comment on or challenge its proposed fee?	We welcome responses from bodies and other stakeholders during the consultation period. Bodies should provide any evidence that supports a different amount. This may include evidence that the work is not recurring, that local arrangements have changed, or that a previous fee variation should not form part of the scale fee. All responses will be considered before the Board approves and publishes the final 2026/27 fee scale. A link to the consultation survey is

		available in the "Responding to the consultation" section above.
7	Will fee variations still arise after the proposed scale fees are set?	Yes. The scale fee covers the expected recurring audit work based on the information available when fees are set. Fee variations may still be required where additional work is needed because of specific local circumstances, new issues arising during the audit, or where the actual audit work is substantially more or less than envisaged when the scale fee was determined. The impact of IFRS 16 (Leases) and ISA (UK) 600 (Group Audits) is not currently included because the level of additional audit work remains highly dependent on individual bodies' circumstances. Work to rebuild assurance is also excluded from the scale fee and will continue to be considered through fee variation arrangements.
8	How can my organisation reduce the risk of additional audit fees?	Bodies can reduce the risk by: • preparing complete and materially accurate financial statements; • providing clear supporting working papers on time; • agreeing the audit timetable and information requirements with the auditor; • responding promptly to audit queries; • alerting the auditor early to significant transactions, accounting judgements or changes in group arrangements; and • discussing the expected scope and cost of additional work before it begins, where possible. These actions cannot prevent every fee variation, but they can reduce avoidable additional work and help bodies understand potential costs earlier.
9	How does PSAA assess a proposed fee variation?	PSAA reviews fee variation submissions in accordance with the Local Audit (Appointing Person) Regulations. We assess the evidence provided by audit firms, including the reason for the additional or reduced work, the work completed, the hours and staff grades used, and the amount claimed. We consult with bodies, consider their comments and compare similar requests across firms and bodies to ensure a consistent approach before determining any additional fee. Where appropriate, we may request further evidence and will reduce or reject any amount that is not adequately supported.
10	Can an audit firm charge extra because its audit took	Not automatically. The firm must show that the additional cost arose from work outside the assumptions underlying the scale fee and that the work was necessary. Costs caused by an auditor not meeting its responsibilities are not

	longer than expected?	eligible for a fee variation. PSAA reviews the evidence and considers the body's comments before determining the fee.
11	What accounting and auditing changes has PSAA considered?	We considered relevant changes in accounting and auditing requirements for 2025/26 and 2026/27. We found insufficient evidence to support a sector-wide scale-fee adjustment for these changes. Some changes, including IFRS 16 and ISA (UK) 600, may affect individual bodies differently and may result in fee variations where additional audit work is required. Once sufficient evidence is available to demonstrate a recurring and quantifiable impact, the LAO may wish to consider how such costs should be reflected within its future fee regime.
12	Why is PSAA proposing an adjustment for pension asset surpluses?	The 2025/26 triennial pension valuations show that many bodies are again reporting gross pension asset surpluses. These bodies must consider IFRIC 14, which results in additional audit work. Similar work continued for two years after the 2022/23 valuation. We therefore assess the work as recurring while surplus positions remain and propose including it in the relevant scale fees rather than processing annual fee variations. If a body is no longer in a surplus position we will apply a negative fee variation.
13	How have the proposals taken account of wider changes in local audit and the LGPS reforms?	We have discussed emerging audit developments with audit firms and considered their potential impact on future audits. While recent LGPS reforms may have audit implications, there is currently insufficient evidence to quantify any recurring audit impact and therefore no additional fees are proposed at this stage. We will continue to monitor developments as further information becomes available.
14	What is rebuilding assurance and why is it needed?	Rebuilding assurance is additional audit work that may be required following a disclaimed or other modified opinion issued primarily because of the statutory backstop arrangements. The work helps auditors regain assurance over relevant balances and transactions so that they can return to unmodified opinions over time. The scope will depend on each body's audit history, records, risks and available evidence.
15	Why is rebuilding assurance work not included in the 2026/27 scale fee?	Rebuilding assurance work is a consequence of the local audit backlog and the use of statutory backstop arrangements, rather than the recurring annual audit. The amount of work varies significantly between bodies and over time, so it cannot be included reliably in a standard scale fee. PSAA will therefore continue to assess these costs through the fee variation process.
16	Will bodies still receive fee variations for	Yes. Where auditors undertake additional work to rebuild assurance, any associated costs will continue to be considered through PSAA's fee variation process. Audit

	build-back work?	firms must submit evidence to support the work undertaken and PSAA will review the information before determining any fee variation.
17	Will all bodies affected by backstop related disclaimed or qualified opinions require the same level of rebuilding assurance work?	No. The extent of rebuilding assurance work will depend on the circumstances of the individual body, including the nature of previous audit opinions, the availability of audit evidence, and the auditor's assessment of risk.
18	Is the Government providing funding to support rebuilding assurance work?	Yes. MHCLG has announced funding to help eligible bodies cover reasonable additional audit costs related to rebuilding assurance following backstop-related disclaimed or modified opinions. Eligibility and payment arrangements are set by MHCLG and are separate from PSAA's fee-setting and fee-variation processes because the funding does not cover fee variations that are not related to rebuilding assurance. Bodies should refer to MHCLG's current technical note to establish whether they are eligible and which costs the funding covers.
19	Are project costs included within build-back fee estimates?	No. Project costs and body-specific rebuilding assurance work are separate categories of cost. PSAA reviews fee variation proposals to ensure that costs already recovered through the project cost fee variation are not recovered a second time through build-back fee variations.
20	What safeguards will PSAA use to reduce the risk of double recovery between project costs and fee variations from work to rebuild assurance?	We have received firms' capacity assessments and cost estimates for rebuilding assurance work. The firms used PSAA's standard templates to estimate the total cost for each affected audit, including the expected work, hours, staff grades and timing. Firms should share their estimates and supporting assumptions with the relevant bodies, and we will share the estimates with MHCLG. This gives bodies early sight of expected costs and allows them to discuss the scope and assumptions with their auditor. We will use the estimates as a baseline when reviewing fee variations already received and any future proposals. We will distinguish between central project costs, such as firm-wide methods, guidance and training, and work carried out on an individual body's audit. 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.
21	What happens if the scope of the audit reduces?	Where the audit requires substantially less work than the scale fee assumes, the auditor or body may identify the need for a negative fee variation. PSAA will assess the evidence before determining any reduction.
22	Will the Local Audit Office change the 2026/27 fee?	The proposed 2026/27 scale fee is based on PSAA's current statutory responsibilities and the audit contracts in place. We will explain any material effect of the Local Audit Office or wider reforms on future fee arrangements when the Government confirms the relevant responsibilities and implementation timetable.