

Private and Confidential

16 April 2025

Court of the University of Dundee

Dear Tricia

External audit of University of Dundee ('the University')

This letter summarises matters that affect the completion of the ongoing 2023/24 financial statement audit of the University and its subsidiaries. These matters may also impact future assessments of EY's ability to act as your external auditor.

EY conducts an annual assessment of client continuance at the beginning of each audit, updating it as necessary when circumstances change throughout the year. Due to significant audit findings and resulting public scrutiny of the University, we are continuously updating our assessment. This evaluation considers factors such as the current risk level associated with auditing the University, insights from previous audits, the progress of the 2023/24 audit, and our interactions with both management and those charged with governance during the 2023/24 audit.

Several ongoing issues may impact future continuance assessments, including our ability to complete the 2023/24 audits and future audits. The identification of high-risk factors does not solely determine our assessment; crucial to this is how management and those charged with governance respond to these issues.

Matters of concern with relation to the financial statements and our audit

Below is a summary of the main areas of concern at this stage and their impact on our audit procedures. These reflect issues reported through discussions and correspondence to date, in accordance with established protocols for communication with key contacts at the University responsible for the audit. It should be noted that as the areas of concern pertain to the transparency and integrity of management and governance, a comprehensive listing of all matters cannot be confirmed.

These areas include:

1. Incomplete or inaccurate responses to governance inquiries, lack of disclosure on material matters regarding going concern, and non-compliance with laws and regulations.
2. Inaccurate or incomplete responses from management during the audit process concerning issues highlighted in point 1.
3. Possible misrepresentations by management regarding the financial status and future prospects of the University, including negotiations with lenders about covenants attached to the University's revolving credit facility with Bank of Scotland.

4. Submission of an inaccurate going concern assessment that could not be reconciled with internal evidence available to management at the time of drafting, or supported by management evidence during the initial audit challenge.
5. Evidence suggesting that senior management was aware of the aforementioned issues but did not take appropriate or timely action to address them.
6. Information showing that other issues have been raised to senior management and those charged with governance, but not addressed, which may affect our assessment of the governance body's integrity and necessary financial statement disclosures, in particular with respect to going concern disclosures, governance statement disclosures and compliance with the HE Code of Good Governance, and wider consideration of the appropriateness of the consistency and balance of the financial statement's narrative.
7. Several individuals have publicly stated their belief that information pertaining to the financial position of the University has been suppressed, including by certain senior management members.

These matters are not exhaustive and until we are satisfied that all information has been provided to us, we cannot conclude that the list of matters of concern is complete.

Correspondence relevant to the delivery of the 2023/24 financial statements audit

The interim Director of Finance has informed us of correspondence received by the University following the interim Chair of Court's appearance before the Scottish Parliament's Education Committee. We expect that all correspondence pertinent to the audit process or related to the performance of the external auditor in delivering the audit be promptly shared with both the Chair of the Audit and Risk Committee and your external auditor.

We have reviewed the correspondence and noted additional matters that have not been previously brought to our attention. It will be necessary for us to consider these prior to the conclusion of the 2023/24 audit to the extent they do not solely relate to misunderstandings of the audit process and/or the role of an external auditor. Regarding the sections of the letter pertaining to the ongoing 2023/24 audit, we observe several fundamental misunderstandings regarding both the audit process and the role of an external auditor.

At the March meeting of the Audit and Risk Committee, we noted several amendments were necessary to the minutes of the Audit and Risk Committee in September 2024. We are concerned at the fundamental nature of the amendments required to ensure that the status update we provided at the October 2024 meeting was factually represented and recorded. We are concerned about inaccuracies in covering papers prepared by management, especially in respect of the draft financial statements issued to Court in November 2024, which did not accurately represent the audit status. The draft financial statements also included a draft opinion that was not provided by us for inclusion in the financial statements. Maintaining factually correct records of important governance meetings is crucial for good governance, and it is important that these matters are addressed seriously by the University.

Impact of the matters noted on the financial statements audit

Due to the issues outlined above, we have determined that the University requires "close monitoring" during the audit process. This heightened risk classification, which is EY's highest risk classification, will be integrated into the ongoing planning and execution of the audit, necessitating additional audit efforts and oversight. Along with the change in lead audit partner and other measures detailed in our previous reports, we are implementing the following actions:

- Appointment of an independent engagement quality reviewer to provide further executive oversight.
- Reduction of audit materiality across all areas, resulting in supplementary testing.
- Further mandatory collaboration with our forensic specialists and obligatory consultation regarding procedures undertaken to address the issues and any additional matters that arise.

We have reissued our "letters to management and those charged with governance" and have discussed the importance of accurate, complete and transparent responses. The questions in these letters represent a minimal requirement for responsiveness and transparency. Considering the ongoing identification of previously undisclosed matters, it is crucial that all individuals at the University, both in senior management and governance roles, use this opportunity to share any matters they are aware of that may affect the financial statement or the University's compliance with laws, regulations, good governance, or other relevant issues that should be disclosed.

We acknowledge that the University has commissioned investigations by Shepherd and Wedderburn LLP and AAB. There is also the recently announced investigation by the Scottish Funding Council (SFC). These inquiries should not impede transparent disclosures to us, as your auditor, so that we can thoroughly comprehend the matters at hand and consider the impact on our work. Any further identification of inadequate responses or delays in sharing information will require us to reassess our role as your auditor. Additionally, we acknowledge the breadth of the SFC's investigation, which includes examining whether information regarding the financial position was withheld. We are evaluating the implications of this in conjunction with our other procedures.

Next steps for the University and its financial statement audit arrangements

During the March 2025 Audit and Risk Committee management expressed their desire to finalize the financial statements and related audit for 2023/24 by the end of April 2025. This target date was cited with a view to preventing any potential negative impact on the University's credit rating with lenders.

Given the multiple investigations and the gravity of the matters under consideration, it is challenging to comprehend how complete disclosures can be provided to us by officers and those charged with governance within this timeframe. Additionally, it is difficult to see how the financial statements and governance disclosures can be updated, finalized, and approved by the Court until all these investigations are concluded and their outcomes reviewed by the University. Consequently, we will be unable to conclude our audit work until the results of these investigations are known to us, and we have had an opportunity to evaluate the University's

response to these significant issues and assess the impact on our responsibilities. We understand that the SFC investigation may not reach completion before June 2025.

Due to the delays mentioned above, the delivery of our final audit results report will be postponed. This report will encompass several significant management recommendations pertaining to key control weaknesses and areas for necessary enhancement in management and governance arrangements. We are currently considering ways to communicate these issues more promptly for management action, potentially through an interim management letter to a more immediate Audit and Risk Committee. This communication will address previously discussed concerns regarding the University's financial management capacity, especially in light of the upcoming departure of the interim Director of Finance.

Considering the uncertainty surrounding the future completion timetable, the University must address issues related to transparency and effective governance. We have expressed our concern that meetings of the Audit and Risk Committee are not being held frequently enough – the last meeting before our insistence on convening one in March 2025 was in October 2024. Given the seriousness of the situation facing the University, as discussed with the Chair of Audit and Risk Committee, it is imperative that the Audit and Risk Committee meets more frequently, ideally on a monthly basis.

As previously discussed, and outlined in our correspondence, we anticipate that the audit procedures necessary to address the aforementioned issues will result in substantial additional audit resource and time for the 2023/24 financial statements. This will also affect the amount of time required and audit fee structure in subsequent years. It remains our expectation that we are compensated fairly for the work required. We will set out separately a required monthly billing schedule up until the provisional conclusion of the audit after agreeing an updated timetable with management, with a final invoice provided once we can confirm the total final work required.

Receipt of a letter such as this from your external auditor, along with the issues detailed therein, are very serious. The evolution of these matters, including the University's robust and prompt response by management and those charged with governance, will be critically assessed in our future continuance evaluations.

We would like to acknowledge the cooperation and constructive approach of the interim Director of Finance since her appointment in November 2024.

Please do not hesitate to contact me if you have any questions or concerns regarding the matters set out above and I would be happy to discuss them further with you.

Stephen Reid
Partner
Head of UK Government and Public Sector Audit
for and on behalf of Ernst & Young LLP

cc: Interim Principal
cc: Interim Director of Finance
cc: Chair of the Audit and Risk Committee