

Independent auditor's report

To the Department for Digital, Culture, Media and Sport on Channel Four Television Corporation

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Channel Four Television Corporation (the 'Corporation') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Corporation's affairs as at 31 December 2019 and of the Group's deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Corporation financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 (as if it were to apply to the Corporation) and, as regards the Group financial statements, Article 4 of the IAS Regulation as if that Act and Article applied to the Corporation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Corporation statements of changes in equity;
- the consolidated and Corporation balance sheets;
- the consolidated cash flow statement;
- the related notes 1 to 22.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Corporation financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Corporation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





While the Corporation is not a public interest entity subject to European Regulation 537/2014, the members have decided that the Corporation should follow the same requirements as if that Regulation applied to the Corporation.

3. Summary of our audit approach

Key audit matters The key audit matters that we identified in the current year were:

- Recognition of non-cash revenue; and
- Going concern.

Within this report, key audit matters are identified as follows:

-  Newly identified
-  Increased level of risk
-  Similar level of risk
-  Decreased level of risk

Materiality The materiality that we used for the Group financial statements was £9.6 million which was determined on the basis of revenue.

Scoping We audited the Group as a single component, covering 100% of net assets, revenue and profit before tax.

Significant changes in our approach In 2018 we identified a key audit matter in relation to the accounting for the acquisition of The Box Plus Networks Limited. Since that transaction took place in 2018, we have not identified a similar key audit matter for 2019. We have identified an additional key audit matter in 2019 related to going concern owing to the level of management judgement and increased audit effort. There are no other significant changes in our approach.

Independent auditor's report (continued)

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the members' statement on page 150 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Corporation's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the members' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the members' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement which the members have made as if the Corporation was required to apply Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the members' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the members' assessment of the Group's and the Corporation's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 139 to 143 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the members' confirmation on page 145 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the members' explanation on page 145 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the members' statement relating to the prospects of the Group which they have chosen to make as if the Corporation was required to by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the members.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.


5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report (continued)


5.1. Recognition of non-cash revenue

 <i>Key audit matter description</i>	<p>The Members are required under IAS 1 Presentation of Financial Statements to make an assessment of the Group's and the Corporation's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. In making this assessment, management prepared forecasts and scenario planning over the going concern period which modelled available liquidity and covenant calculations.</p> <p>As a result of the Covid-19 pandemic and the subsequent economic impact, there was significant judgement involved in preparing the forecasts and financial models for future periods used in the going concern assessment.</p> <p>Owing to the increased level of audit effort involved, we identified a key audit matter in relation to the appropriateness of the going concern basis of accounting. Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on page 144, in the Group Accounting Policies on page 185, and in note 22 to the financial statements.</p>
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<i>How the scope of our audit responded to the key audit matter</i>	<p>We obtained an understanding of relevant controls relating to the Group's forecasting process and the preparation of management's going concern models.</p> <p>We obtained management's updated financial models used to support their going concern assumptions and tested their numerical accuracy. We obtained and assessed evidence used to support the assumptions used by management and considered whether reasonable downside scenarios were considered and whether any potential mitigations were reasonable, realistic and within management's control.</p> <p>We obtained and read analyst reports, industry data and other external information, comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions.</p> <p>We obtained and reviewed the revolving credit facility documents to understand the nature of any financial covenants to determine the impact on the going concern assessment and we obtained evidence of the draw down. We considered the amount of liquidity and covenant headroom available in management's forecasts and we assessed the historical accuracy of forecasts prepared by management.</p>
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Key observations We are satisfied that management's adoption of the going concern basis of accounting is appropriate.

5.2. Going concern

 <i>Key audit matter description</i>	<p>As a result of the Covid-19 pandemic and the subsequent economic impact, there was significant judgement involved in preparing the forecasts for future periods used in the going concern assessment.</p> <p>Owing to the level of management judgement and estimation, we identified a key audit matter in relation to the appropriateness of the going concern basis of accounting.</p>
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<i>How the scope of our audit responded to the key audit matter</i>	<p>We obtained management's updated financial models used to support their going concern assumptions and tested their clerical accuracy. We obtained and assessed evidence used to support the assumptions used by management and considered whether downside scenarios were considered and whether any potential mitigations were reasonable and realistic.</p> <p>As stated in note 22, in March 2020 the Group drew down fully on their revolving credit facility, providing £75 million of additional liquidity. We obtained the revolving credit facility documents to understand the nature of any financial covenants to determine the impact on the going concern assessment and we obtained evidence of the draw down. We considered the amount of headroom available in management's forecasts and we assessed the historical accuracy of forecasts prepared by management.</p>
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Key observations As detailed in section 4.1 we have nothing material to report or draw attention to in relation to the going concern assumption.

Independent auditor's report (continued)

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group and Corporation-only financial statements
Materiality	£9.6 million (2018: £9.6 million)
Basis for determining materiality	We determined materiality using a benchmark of 1.0% of revenue (2018: 1.0% of revenue).
Rationale for the benchmark applied	We consider the use of a benchmark of revenue, rather than profit, to be appropriate since the Corporation's aim is to reinvest surpluses into original content and digital innovation, and we consider revenue to be the key metric of interest to the users of the financial statements.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including the quality of the control environment; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £480,000 (2018: £480,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the Group and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to risks of material misstatements was performed directly by the audit engagement team.

The Group maintains a single aggregated set of accounting records for all of its operations and we therefore audited the entire Group as a single component, covering 100% of net assets, revenue and deficit before tax. For the audit of the Corporation, management deconsolidated the Group financial information in order for us to identify the relevant Corporation-only balances and transactions.

7.2. Our consideration of the control environment

In assessing the control environment of the Group, we obtained an understanding of the relevant IT controls associated with the Group's key accounting and reporting system. On IT systems related to the processing of transactional advertising revenue and programme inventory, we have identified certain control deficiencies and accordingly took a substantive approach to our audit testing.

We also gained an understanding of the relevant controls associated with certain business processes, being transactional advertising revenue, non-cash based revenue, programme inventory, payroll, trade payables and trade receivables. This was to assess whether we could adopt a controls reliance approach which would impact the extent of substantive testing that was required.

We planned and took a controls reliance approach in relation to non-cash based revenue. For this process we tested the relevant controls based on a sample of control instances, determined by the frequency of the control's operation. We did not plan to take a controls reliance approach in the other business processes. For transactional revenue and programme inventory we would have planned to take a controls reliance approach if we had been able to rely on the IT systems involved in their processing. We expect to adopt a controls reliance approach for the 2021 audit.

Independent auditor's report (continued)

8. Other information

The members are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the members that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Members' statement of compliance with the UK Corporate Governance Code** – the parts of the members' statement which they have chosen to make as if the Corporation was required to under the Listing Rules relating to the Corporation's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

9. Responsibilities of members

As explained more fully in the members' responsibilities statement, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the Group's and the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the Group or the Corporation or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for members' remuneration, bonus levels and performance targets;
- results of our enquiries of management, business assurance and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the recognition of non-cash based revenue. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements.

The key laws and regulations we considered in this context included the Broadcasting Act 1990, the Communications Act 2003, the UK Companies Act and Listing rules (as if they were to apply to the Group), pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Corporation's ability to operate or to avoid a material penalty. The key laws and regulations we considered in this context included compliance with the Ofcom Broadcasting Code, Ofcom on-demand rules, and Advertising Standards Agency guidelines.

11.2. Audit response to risks identified

As a result of performing the above, we identified the recognition of non-cash revenue as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Business Assurance reports and reviewing correspondence with HMRC and summaries of correspondence with Ofcom;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the members' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, as if that Act were to apply to the Corporation.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the members' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the members' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Corporation and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the members' report.

Independent auditor's report (continued)

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the terms of our engagement we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Corporation, or returns adequate for our audit have not been received from branches not visited by us; or
- the Corporation financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Members' remuneration

Under the terms of our engagement we are also required to report if in our opinion certain disclosures of members' remuneration have not been made or the part of the members' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

We were appointed with the approval of the Secretary of State for Digital, Culture, Media and Sport on 10 August 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2017 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the Department for Digital, Culture, Media and Sport, in accordance with the Broadcasting Act 1990 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Department for Digital, Culture, Media and Sport those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Department for Digital, Culture, Media and Sport, for our audit work, for this report, or for the opinions we have formed.

Kate J Houldsworth FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

28 September 2020