

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 2020 and of the Group's surplus 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).

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 Group and Corporation accounting policies;
- the related notes 1 to 21 to the consolidated financial statements; and
- the related notes 1 to 7 to the Corporation financial statements.

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:

- Accounting for non-cash revenue; and
- The going concern basis of accounting.

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 £9.0 million which was determined by considering two key metrics, revenue and total assets. This is a revised approach from the prior year, when materiality was determined based on 1% 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 There have been no significant changes to our approach, with the exception of the change in our materiality approach.

Independent auditor's report (continued)

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.2.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Corporation's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the members' statement in the financial statements about whether the members considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

5.1. Accounting for non-cash revenue

<i>Key audit matter description</i>	<p>The Corporation earns a significant portion of its revenues from TV advertising, for which most contracts are standard and the recognition of such revenue is processed through automated transactional processes. There is a sub-set of contracts which have non-standard terms, including those which include barter arrangements in relation to the transfer of non-cash consideration in exchange for the advertising airtime provided. This typically includes consideration such as programme rights or equity investments.</p> <p>As a result of the nature of these contracts, there is significant judgement involved in determining the valuation of non-cash items. This year we have focussed on those contracts where programme rights are received. We therefore identified a key audit matter relating to the risk of inaccurate revenue accounting for these contracts, whether due to error or fraud.</p> <p>The amount of revenue which is not settled in cash was £44 million (2019: £34 million). The Corporation's policy in relation to this is included in the Group Accounting Policies on page 187. Refer to page 164 where this is included as a significant matter in the Audit Committee report.</p>
<i>How the scope of our audit responded to the key audit matter</i>	<p>We obtained an understanding of the process and tested relevant controls around non-cash revenue relating to contracts where programme rights are received.</p> <p>We analysed a statistical sample of contracts to identify any non-standard contractual terms to determine whether these were accounted for appropriately.</p> <p>We selected a sample of non-standard revenue contracts, focusing on those which in our judgement had a higher probability of error, and assessed whether the accounting treatment for these contracts was in line with their terms, the Corporation's accounting policy and relevant accounting standards including IFRS 15 Revenue from Contracts with Customers.</p> <p>We tested a sample of contracts where programme rights are received by tracing to signed contracts and internal management approvals.</p> <p>We obtained and assessed evidence to support the fair value of the non-cash consideration received. For programming received in these barter contracts in return for advertising, we agreed consideration received to programming contracts.</p>
<i>Key observations</i>	<p>We consider the accounting applied to be in accordance with IFRS 15 Revenue from Contracts with Customers and the Corporation's accounting policy.</p>

Independent auditor's report (continued)

5.2. The going concern basis of accounting

<i>Key audit matter description</i>	<p>The Members are required under IAS 1 <i>Presentation of Financial Statements</i> 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 and determine whether any material uncertainties exist. 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 Members' assessment, including the sensitivities applied, are included within the Strategic Report on page 147 and in the Group Accounting Policies on page 186.</p>
<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 its 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. We performed our own sensitivity analyses to determine whether there were other reasonably possible downside scenarios which could lead to a material uncertainty in going concern and considered 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 £75m draw down of the revolving credit facility. 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>
<i>Key observations</i>	<p>We are satisfied that management's adoption of the going concern basis of accounting is appropriate and concur that there are no material uncertainties relating to going concern.</p>

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	£9.0 million (2019: £9.6 million)
Basis for determining materiality	We determined materiality by considering two key metrics; revenue and total assets. The determined materiality equates to 0.96% of revenue and 0.95% of total assets. This is a revised approach from the prior year, when materiality was determined based on 1% of revenue.
Rationale for the benchmark applied	As a result of Covid-19 and the significant impact it had on the business, we considered the use of two key metrics – revenue and total assets – rather than just one measure to be appropriate. The benchmarks that have been chosen to determine a materiality consider both balance sheet and income statement metrics in the current year. This provides a representation of the size of the business, and reflects the investment in programme content and film rights and the Corporation's aim is to reinvest surpluses into original content and digital innovation.

Independent auditor's report (continued)

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 and Corporation performance materiality was set at 70% of Group (and Corporation) materiality for the 2020 audit (2019: 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 £450,000 (2019: £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 profit 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. We 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. On IT systems related to the processing of transactional advertising revenue and programme inventory, as in prior year, we have identified certain control deficiencies and accordingly took a non controls reliance approach to our audit testing.

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.

8. Other information

The other information comprises the information included in the annual report including Audit Committee reporting and Members' statement of compliance with the UK Corporate Governance Code, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

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.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 relevant internal specialists, including IT and analytics, pensions, real estate and tax 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 accounting of non-cash 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 Group's and 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.

Independent auditor's report (continued)

11.2. Audit response to risks identified

As a result of performing the above, we identified the accounting 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; and
- 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.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the report of the members with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 152;
- the members' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 152;
- the members' statement on fair, balanced and understandable set out on page 153;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 147;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 141 to 146; and
- the section describing the work of the audit committee set out on page 154.

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

14.1. 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.

14.2. 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.

Independent auditor's report (continued)

15. Other matters which we are required to address

15.1. 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 four years, covering the years ending 31 December 2017 to 31 December 2020.

15.2. 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).

16. 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 Group 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

5 May 2021