

# 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 2021 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- 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 United Kingdom adopted international accounting standards.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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.

#### 3. Summary of our audit approach

**Key audit matters** The key audit matter that we identified in the current year was:

- Accounting for complex revenue contracts

Within this report, key audit matter is 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 £11.0 million which was determined by considering two key metrics: revenue and total assets.

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

**Significant changes in our approach** Owing to the increased level of audit effort involved due to Covid-19, we identified a key audit matter in relation to the appropriateness of the going concern basis of accounting in prior year. However, in the current year we no longer consider the going concern basis of accounting as a key audit matter. Other than this there have been no significant changes to our approach.

# Independent auditor's report (continued)

## 4. Conclusions relating to going concern

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

Our evaluation of the members' assessment of the Group's and Corporation's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the Group's forecasting process and the preparation of management's going concern models.
- Obtaining management's financial models used to support its going concern assumptions and tested their numerical accuracy.
- Assessing and challenging the evidence used to support the assumptions used by management in their base case scenario.
- Considered whether management's range of reasonably possible downside scenarios including their severe scenario were considered and whether any potential mitigations were reasonable, realistic and within management's control.
- Reading industry 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.
- Reviewing the revolving credit facility documents (including the new revolving credit facility issued post year-end) to understand the nature of any financial covenants to determine the impact on the going concern assessment.
- Assessing the amount of liquidity and covenant headroom available in management's forecasts.

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 member's 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 members 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 complex revenue contracts

#### Key audit matter description

The Corporation earns a significant portion of its revenues from TV advertising, for which most contracts are straightforward. There is a small sub set of contracts which have complex terms, and which aren't settled with a traditional cash payment, or have other commitments required to be made by the Corporation in exchange for advertising airtime.

There is significant judgement, that these agreements, as a result of their complex and unusual nature and the material amounts involved, are accounted for or disclosed incorrectly. We therefore identified a key audit matter relating to the accounting for complex revenue contracts.

The amount of revenue to which our key audit matter relates is £47.7 million (2020: £27 million). The Corporation's policy in relation to this is included in the group accounting policies on page 206. Refer to page 183 where this is included as a significant matter in the Audit Committee report.

## Independent auditor's report (continued)

<i>How the scope of our audit responded to the key audit matter</i>	We analysed a statistical sample of contracts to identify complex contracts with non-standard contractual terms.
	We obtained an understanding and tested relevant controls around the recognition of revenue relating to these complex contracts.
	For those contracts that were identified as complex, we 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.
	We tested a sample of revenue transactions by tracing to signed agreements and internal management approvals and tracing the revenue through to revenue transmission data to determine whether these had been aired.
	We assessed the fair value of the consideration received by agreeing to programming contracts.
	We assessed management's financial statement disclosures against the requirements of IFRS 15.
<i>Key observations</i>	We consider the accounting applied and the disclosure to be in accordance with IFRS 15 Revenue from Contracts with Customers and the Corporation's accounting policy. We are satisfied the valuation of consideration related to the complex revenue arrangements was appropriate and in line with the fair value requirements of IFRS 13 Fair Value Measurement.

### 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
<b>Materiality</b>	£11.0 million (2020: £9.0 million) Since there are no components within the Group there is no requirement for Corporation only materiality to be set at lower than the materiality level of the Group.
<b>Basis for determining materiality</b>	We determined materiality by considering two key metrics: revenue and total assets. The determined materiality equates to 0.95% of revenue (2020: 0.96%) and 1.10% of total assets (2020: 0.95%). This approach is in line with the prior year.
<b>Rationale for the benchmark applied</b>	We considered the use of a number of different measures including revenue and total assets, as these benchmarks take into account both balance sheet and income statement metrics. Total assets provides a representation of the size of the business, and reflects the investment in programme content and film rights. Therefore, we consider it to be a key metric of interest to the users of the financial statements. Since the Corporation's aim is to reinvest surpluses into original content and digital innovation, we also consider revenue to be a 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 and Corporation-only financial statements
<b>Performance Materiality</b>	Group and Corporation performance materiality was set at 70% of Group (and Corporation) materiality (2020: 70%).
<b>Basis for determining materiality</b>	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> <li>- Our risk assessment, including the quality of the control environment; and</li> <li>- Our experience of the audit, which has indicated a low number of corrected and uncorrected misstatements in prior periods.</li> </ul>

#### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £550,000 (2020: £450,000), 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.

# Independent auditor's report (continued)

## **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 to identify the relevant Corporation-only balances and transactions such as intercompany balances.

### **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, revenue in relation to complex contracts, programme inventory, payroll, trade payables and trade receivables.

On IT systems related to the processing of transactional advertising revenue and programme inventory, we identified control deficiencies which resulted in us not being able to rely on controls in our audit. During 2021, management implemented new compensating controls in the transactional advertising revenue cycle. We have performed procedures to understand these controls and plan to take a controls reliance approach for the 2022 audit when the controls will be in place for the full period.

### **7.3. Our consideration of climate-related risks**

Climate change has the potential to impact the Group as set out on pages 149 to 155 and page 161 of the Annual Report. The Group remains committed to a transition to net zero, by setting and achieving both near-term and long-term science-based emission reduction targets to provide a pathway to net zero by 2030.

In the planning of our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

We have sought to understand the Group's identification and assessment of the potential impacts of climate change, how these risks influence the Group's strategy and their implications on the financial statements.

We have not been engaged to provide assurance over the accuracy of climate change disclosures set out on pages 149 to 155 in the Annual Report. As part of our audit procedures, we are required to read these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit. We did not identify any material inconsistencies as a result of these procedures.

## **8. Other information**

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

**We have nothing to report in this regard.**

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.

# 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](http://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 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 for and disclosure of complex revenue transactions. 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 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 accounting for complex revenue contracts 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 171;
- 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 165;
- the members' statement on fair, balanced and understandable set out on page 172;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 165;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 157 to 164; and the section describing the work of the Audit & Risk Committee set out on pages 181 to 184.

### 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 five years, covering the years ending 31 December 2017 to 31 December 2021.

### **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 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

4 May 2022