

Independent auditor's report

To the Department for 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 2023 and of the Group's deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Corporation's 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 statements of Group and Corporation accounting policies; and
- the related notes 1 to 22 to the consolidated financial statements, and 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 Financial Reporting Standard 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 matters that we identified in the current year were: <ul style="list-style-type: none">Revenue recognitionProgramme and film rightsGoing Concern
Materiality	The materiality that we used for the Group financial statements was £10,000,000 which equates to 1% of revenue.
Scoping	We audited the Group as a single component, covering 100% of net assets, revenue and deficit before tax.
Significant changes in our approach	<p>In the previous year we identified a key audit matter in relation to the valuation of pension liabilities, as a result of the completion in the year of a triennial valuation of the pension scheme, and the impact of higher discount rates and lower investment performance on both pension assets and liabilities. Neither of these risk factors have recurred in the current year therefore this is no longer a key audit matter for 2023.</p> <p>In the current year we have identified new key audit matters; revenue recognition, programme and film rights and going concern, due to their significance in our overall audit strategy.</p>

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 is discussed in section 5.1.

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 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 directors' statement in the financial statements about whether the directors 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. Revenue recognition

<i>Key audit matter description</i>	<p>The Group recognised revenue of £1,023m (2022: £1,142m) predominately in relation to advertising revenue (2023: 90%, 2022: 89%). The downturn in the UK advertising market has had an impact on revenue and the Group's financial performance for the year.</p> <p>The Group has a number of revenue streams including linear, digital and non-advertising revenues, and also recognises revenue from barter transactions. We consider that revenue recognition represents a key audit matter due to the effort and resources allocated during the audit.</p> <p>The Group accounting policies sets out the policies for revenue recognition and a summary of revenue by type is included in note 1 to the consolidated financial statements.</p>
<i>How the scope of our audit responded to the key audit matter</i>	<p>We obtained an understanding of the revenue process for each key revenue stream through performing walkthroughs, including obtaining an understanding of relevant revenue controls.</p> <p>We designed our audit procedures to be specific to the nature of each revenue stream. Consequently, we performed the following audit procedures:</p> <ul style="list-style-type: none">- We reviewed management's accounting policies for each revenue stream and assessed compliance with IFRS 15.- We worked with analytics specialists to profile linear advertising revenue transactions in order to select our sample.- For each revenue stream we traced a sample of revenue transactions to third party supporting evidence, including contracts, and to evidence of transmission and ultimately to cash received to validate occurrence and accuracy.- We selected a sample of TV advertisements throughout the year and traced these to transmission reports and the ledger, to test for completeness of revenue.- We obtained transmission reports and inspected the dates that digital and TV advertisements were transmitted to determine that revenue was recognised in the correct period.- We tested accrued and deferred income recognised by agreeing samples selected to supporting evidence, including contracts and evidence of occurrence, recalculating the accrual or deferral thereby validating that the revenue has been recognised in the correct period.
<i>Key observations</i>	<p>We consider the revenue recognised across the Group to be appropriate and recognised in the correct period. We consider management's disclosures in relation to revenue to be appropriate.</p>

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5.2. Programme and film rights

Key audit matter description	<p>Programme and film rights are highly material with £472m (2022: £492m restated) (see note 13) recognised as inventory as at 31 December 2023 and £663m recognised as content costs during the year (2022: £713m). Channel 4 account for such rights as inventories under IAS 2.</p> <p>The amortisation of programme and film rights is disclosed as a critical accounting judgement in the Group accounting policies, as there is judgement in determining the profile over which to amortise programming, which includes an assessment of programme value.</p> <p>Due to its quantum, the audit of this balance requires a significant allocation of audit resources to perform our audit testing. Furthermore, during the period, management has restated acquired programme and film rights to recognise the full cost of acquired programme and film rights at the licence start date, with an adjustment made to current and non-current trade and other payables to reflect the associated liabilities for amounts not yet due. This has resulted in a gross-up of acquired programming and film rights and payables of £95m in 2023, with the comparative figures restated for both 2022 by £94m and 2021 by £56m as required by IAS 1, which is disclosed as a footnote to the consolidated balance sheet, and in notes 13 and 16.</p> <p>We consider that programme and film rights represents a key audit matter due to the significance in the value of the account, and the effort and resources allocated to the audit of this account.</p>
How the scope of our audit responded to the key audit matter	<p>We assessed the accounting policies for programme and film rights against the requirements of IAS 2 and industry practice. We evaluated the disclosure of the restatement of programming inventory against IAS 1 requirements.</p> <p>We audited the determination of the adjustments made in applying the accounting policy for acquired programme and film rights for each of 2023, 2022 and 2021 financial years.</p> <p>In respect of programme and film rights in the current year we:</p> <ul style="list-style-type: none">- reconciled the programme and film rights ledger to the financial statements, including opening inventory, additions, amortisation and closing inventory. We selected a sample of programming inventory and for each sample we obtained the contract or licence and agreed the total cost of the asset;- tested additions in the year to invoices;- tested the transmission cost recognised in the income statement through recalculation based on management's programming amortisation policy;- tested the year end creditor associated with payments due not yet invoiced; and- tested a sample of inventory impairments. <p>We challenged management's amortisation policy for both commissioned and acquired programme and film rights, by disaggregating the balance based on viewership profiles, inspecting viewership profiles, and auditing viewership data, to confirm that their cost is recognised in the income statement in line with revenue earned.</p>
Key observations	<p>We are satisfied that the Group accounting policy for programme and film rights is in line with IAS 2 and that this has been retrospectively applied and appropriately disclosed. We are satisfied that the adjustments made in 2023 and to restate 2022 and 2021 are complete and accurate. We are also satisfied with the value of programme and film rights recognised as at 31 December 2023 on the balance sheet and the content costs of transmission (amortisation) recognised in the income statement.</p>

5.3. Going concern

<i>Key audit matter description</i>	<p>The decline of the UK advertising market in 2023 created challenging trading conditions across the industry and resulted in the Group incurring a deficit greater than had been forecast. In light of this, Channel 4 announced a new strategy, "Fast Forward" in January 2024, with a focus on accelerating the transition to a digital-first business model.</p> <p>Management have adopted the going concern assumption in preparing the financial statements, supported by forecast cash flows covering the going concern period (up to May 2025). The going concern assessment involves judgement and estimation in the determination of material inputs, including the timing and extent of recovery in the UK advertising market, cost inflation, and the successful execution of the Fast Forward strategy. Any changes to these assumptions could result in a material change in the amount of liquidity and covenant headroom available.</p> <p>The Group has an existing Revolving Credit Facility (RCF) of £75m which expires in 2027 which contains a Tangible Net Worth (TNW) covenant. In May 2024, Channel 4 extended its Revolving Credit Facility (RCF) from £75m to £150m, significantly increasing the liquidity headroom in forecasts.</p> <p>We identified going concern as a key audit matter given its significance in directing the efforts of the engagement team. The Members' assessment of going concern is included in the Members Report on page 165, the Strategic and financial outlook for the Group is included on page 154 and Going concern is included in the Group accounting policies note on page 203.</p>
<i>How the scope of our audit responded to the key audit matter</i>	<p>We obtained an understanding of the Group's forecasting process and the preparation of management's going concern model, including relevant controls over the budgeting and forecasting process.</p> <p>We challenged management's assessment by:</p> <ul style="list-style-type: none">- Assessing management's historical forecasting accuracy over the last 5 years.- Assessing and challenging the material inputs to the assessment in the base case scenario, principally the recovery of linear advertising revenues; the growth of digital advertising revenue; future content spend; and the impact of inflation on the cost base. We challenged these assumptions through reviewing industry data and reports, external sources of inflation outlook, and by comparing future assumptions against historical trends.- Considering whether the adjustments applied to the going concern model in determining management's reasonably possible downside scenario were reasonable, with reference to our evaluation of material inputs, and considering whether any potential mitigations were reasonable, realistic and within management's control.- Applying additional downside sensitivity analysis to the going concern model, which included modelling a delayed recovery in the advertising market; increasing costs through additional inflation; and considering the impact on liquidity and covenant headroom.- Reviewing the revolving credit facility documents (including the extended revolving credit facility issued in May 2024) to understand the nature of any financial covenants.- Reviewing and assessing the disclosures made in the financial statements.
<i>Key observations</i>	<p>We concur with the directors' assessment that the Group is a going concern and that the disclosures in the financial statements are appropriate.</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 financial statements	
<i>Materiality</i>	<p>£10.0 million (2022: £12.0 million)</p> <p>We have audited the Group including the Corporation as a single component, and applied the same materiality to both financial statements.</p>
<i>Basis for determining materiality</i>	<p>We determined materiality based on revenue and considered total assets as a secondary metric. The determined materiality equates to 0.98% of revenue (2022: 1.05%) and 1.03% of total assets (2022: 1.14%). This approach is in line with the prior year.</p>
<i>Rationale for the benchmark applied</i>	<p>We considered the use of several different measures including revenue and total assets, as these benchmarks take into account both balance sheet and income statement metrics. Revenue provides a representation of the size of the business and is a key performance indicator. Since the Corporation's aim is to reinvest surpluses into original content and digital innovation, we also considered total assets to be a metric of interest to the users of the financial statements.</p>

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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 financial statements	
Performance materiality	Group and Corporation performance materiality was set at 70% of Group (and Corporation) materiality (2022: 70%).
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none">– Our risk assessment, including the quality of the control environment; and– Our 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 and Risk Committee that we would report to the Committee all audit differences in excess of £500,000 (2022: £600,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk 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 Group 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 systems. We gained an understanding of the relevant controls associated with transactional advertising revenue, revenue in relation to complex contracts, programme inventory, payroll, trade payables and trade receivables.

We identified control deficiencies relating to certain key IT systems related to financial reporting, which resulted in us not taking a controls reliance approach in our audit. Management is undertaking remediation work to facilitate control reliance in the future, as set out within the Audit and Risk Committee Report on page 175 of the Annual Report.

7.3. Our consideration of climate-related risks

Climate change has the potential to impact the Group as set out on pages 126 to 139 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 2050.

In order to inform our risk assessment, we 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 126 to 139 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.

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 this regard.

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 parent company'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;
- results of our enquiries of management and the members, Business Assurance and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- 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, tax and pension 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 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, Listing Rules and Corporate Governance Code (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.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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 and Risk 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
- 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 our engagement letter

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.

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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 members' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 161;
- 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 151;
- the members' statement on fair, balanced and understandable set out on page 162;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 151;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 140 to 149; and
- the section describing the work of the audit committee set out on pages 172 to 175.

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 Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group's 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 directors' 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.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by 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 7 years, covering the years ending 31 December 2017 to 31 December 2023.

15.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Barker FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
7 May 2024