
AUDIT COMMITTEE REPORT

Composition of the Audit Committee

During 2014 the Audit Committee comprised Alicja Lesniak (Chair), Monica Burch, Paul Potts and MT Rainey. All the Members of the Committee are Independent Non-Executive Members. Alicja Lesniak FCA is a chartered accountant and was, until 2009, Chief Financial Officer of Aegis plc.

Further details of the Members of the Audit Committee can be found on page 119.

The Committee met four times during 2014. At the Committee Chair's invitation, the Chairman of the Board, the Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Business Assurance, the Board Secretary and the KPMG LLP external audit partner (among others) attended Committee meetings. The external audit partner and Head of Business Assurance have direct access to the Chair of the Audit Committee.

Details of attendance at Audit Committee meetings by the Members of the Corporation are disclosed in the Corporate Governance Report on page 116.

Responsibilities and activities of the Audit Committee

As noted in the Corporate Governance Report on page 115, the Board has discharged certain responsibilities to the Audit Committee.

The Committee's key responsibilities, and how these were discharged in 2014, are detailed on page 122.

AUDIT COMMITTEE REPORT CONTINUED

Responsibilities of the Audit Committee

- to monitor the integrity of the financial statements of Channel 4 and any formal announcements relating to Channel 4's financial performance, reviewing significant financial reporting judgements contained in them
- to review Channel 4's internal financial controls and Channel 4's internal control and risk management systems
- to monitor the Group's whistleblowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action
- to monitor and review the effectiveness of Channel 4's Business Assurance function and activities
- to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken
- to regularly update the Board about the Audit Committee's activities and make appropriate recommendations and to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business

Activities of the Audit Committee in 2014

- at the March and September Audit Committee meetings, reviewed an update of the Corporation's accounting policies, significant accounting and reporting issues and a detailed financial report
- at the March meeting, reviewed the 2013 financial statements and other sections of the Annual Report including the Statement of Media Content Policy before their release, to determine that these were clear and consistent with their knowledge of the Corporation and its operations and to assess that the financial statements reflected appropriate accounting principles
- reviewed the accounting treatment in respect of the Growth Fund and new revenue contracts and initiatives
- at the January meeting, reviewed and approved the Business Assurance work plan and assessed the Corporation's risk management framework
- at the June and September meetings, discussed the Corporation's risk appetite
- throughout the year, reviewed reports on the results of Business Assurance activities, and met with the Head of Business Assurance and Management to review the findings from these activities and instances of whistleblowing, if any
- at the March meeting, reviewed the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act 2003
- considered a report on the governance arrangements for Growth Fund investments
- reviewed a report on the management of Treasury and the Corporation's investments
- considered the tax affairs and arrangements of the Corporation ahead of the annual Senior Accounting Officer certification to HMRC
- further details in External audit section opposite
- the Chair of the Audit Committee briefed the Board as necessary on the activities of the Committee and any significant matters during the course of the year
- Audit Committee papers, including Business Assurance reports, have been made available to the Board during 2014

If necessary, the Audit Committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist.

AUDIT COMMITTEE REPORT CONTINUED

Key audit risks

After discussions with both management and the external auditors, the Audit Committee determined that the key risks in relation to misstatement of the Corporation's financial statements were as follows:

- Programme and film rights
- Revenue recognition

These issues were discussed with management during the year, and with the external auditors while the audit strategy was being reviewed and at the conclusion of the audit of these financial statements.

Programme and film rights

The value of programme and film rights recognised on the balance sheet is £242 million as disclosed in note 12 to the financial statements. The total value of obsolete programmes and developments written off in the year was £45 million. Reflecting the status of Channel 4 as a public service broadcaster, the value to the Corporation of the programme and film rights portfolio is considered on an aggregate basis. As described on page 137, programme and film rights are stated at the lower of the direct cost incurred up to the balance sheet date and value to the Group.

The Committee has reviewed the results of management's provision for programme rights at the balance sheet date and is satisfied that the procedures performed and the assumptions made were robust.

The auditors have explained their audit procedures to test the carrying value of programme and film rights on the balance sheet and the results of their work. On the basis of their audit work, the auditor considered that the carrying value of programme and film rights was materially appropriate in the context of the financial statements as a whole.

Revenue recognition

Total revenue for 2014 was £938 million as detailed in note 1 to the financial statements. The revenue recognition accounting policies of the Corporation are disclosed on page 135. In 2014, £869 million or 93% of total revenues were advertising and sponsorship revenue, which are recognised on transmission of the advertisement for advertising revenue and on a straight-line basis in accordance with the transmission schedule for each sponsorship campaign for sponsorship revenue.

The accounting treatment for new, unique revenue contracts is reviewed and presented by management to the Audit Committee.

The Committee has reviewed the accounting for each material new contract in 2014, and the judgement applied in each case. Management also provided papers explaining the accounting treatment to the auditors during the 2014 financial audit. On the basis of their audit work, the auditor considered that the value of revenue recognised was materially appropriate in the context of the financial statements as a whole.

Misstatements

Management confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The auditors reported to the Committee any misstatements that they had found in the course of their work and no material misstatements remain unadjusted. The Committee confirms that it is satisfied that the auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditors, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

External audit

Auditor rotation

The current auditor has been in place since the audit of the financial statements for the year ending 31 December 2004. The auditor periodically rotates the lead audit partner to safeguard independence and objectivity. Karen Wightman began her tenure as audit partner in 2013. We anticipate that Karen Wightman will continue as lead audit partner until the Audit Committee reviews the need to tender the audit ahead of 2017 when her term concludes.

Auditor objectivity and independence

Channel 4 will not use its external auditors to provide other services unless it is efficient and effective to do so. The Committee has also taken action to ensure the objectivity and independence of the external auditors is maintained. To discharge this responsibility, the Committee has:

- agreed changes in senior audit personnel including the rotation of the lead audit partner in 2013
- approved the proposed audit fee
- reviewed all non-audit fees payable to the Group's external auditors
- reviewed KPMG's annual statement to the Audit Committee to confirm its independence within the meaning of regulatory and professional requirements

A summary of the fees earned by KPMG LLP in respect of all services provided in 2014 to the Corporation is shown in note 3 to the financial statements.

Effectiveness of the audit process

The Committee has reviewed the external audit process and has satisfied itself that it is effective by reviewing:

- the external auditor's plan for the audit of the Group's accounts, including the key audit risks identified above
- the external auditor's detailed reports on the Group's draft financial statements for the year ended 31 December 2014

Business Assurance

As noted elsewhere, the Corporation has a Business Assurance function. The Head of Business Assurance has direct access to the Chair of the Audit Committee and reports jointly to the Group Finance Director and the Chair of the Audit Committee.

During 2014, the Business Assurance function undertook a number of specific projects to provide assurance that control processes were appropriate and working effectively, and where necessary recommend improvements.