

Registered number. 03426366  
Charity number: 1112398

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**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

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**TRUSTEES' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2013**



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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**REFERENCE AND ADMINISTRATIVE DETAILS OF THE COMPANY, ITS TRUSTEES AND ADVISERS  
FOR THE YEAR ENDED 31 MARCH 2013**

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**Trustees**

Sir R Tilt, Chair  
Sir R G Brooke<sup>2</sup>  
Ms N E Cohen<sup>2</sup>  
Mr P J Geerng<sup>2</sup>  
Mr A E Leadley-Yoward<sup>1</sup>  
Ms M MacLeod<sup>2</sup>  
Mr P W Neyroud<sup>2</sup>  
Mr J E Shipp<sup>1</sup>  
Dr S N Walton<sup>2</sup>  
Mr B W Webb<sup>1</sup>

<sup>1</sup> Industry Trustee

<sup>2</sup> Independent Trustee

**Company registered number**

03426366

**Charity registered number**

1112398

**Registered office**

Suite 7310, First Floor, Building 7300, Cambridge Business Park, Waterbeach, Cambridge, CB25 9TN

**Company secretary**

Ms S E Hargreaves

**Chief executive officer**

Ms S E Hargreaves

**Independent auditors**

Peters Elworthy & Moore, Salisbury House, Station Road, Cambridge, CB1 2LA

**Bankers**

Santander, Business Banking Centre, 301 St Vincent Street, Glasgow, G2 5NB

**Investment advisors**

Schroder Investments Limited, 31 Gresham Street, London, EC2V 7QA

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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The Trustees (who are also directors of the charity for the purposes of the Companies Act) present their annual report together with the audited financial statements of Internet Watch Foundation (the company and the group) for the year ended 31 March 2013. The Trustees confirm that the annual report and financial statements of the company and the group comply with the current statutory requirements, the requirements of the company and the group's governing document and the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005.

**STRUCTURE, GOVERNANCE AND MANAGEMENT**

**CONSTITUTION**

Internet Watch Foundation is an independent registered charity (number 1112398) and is also a company limited by guarantee (registered company number 3426366). The company was incorporated on 29 August 1997 and charitable status was gained on 16 December 2004. Internet Watch Foundation is governed by its Memorandum and Articles of Association as approved on 16 December 2004 and amended on 16 September 2005 and 23 September 2008 and 5 October 2010.

**METHOD OF APPOINTMENT OR ELECTION OF TRUSTEES**

Independent Board members are appointed by the Board through a fair and open selection procedure managed by the Board Executive Committee. This Committee is also known as the Board Nominations Committee and comprises the Chair, the two Vice-chairs of the Board and an independent person. In making its choice, the Committee will ensure that the Board has an appropriate balance of skills and experience. All recommendations of the Committee for Board appointments are subject to Board approval.

Subscribing organisations who support the Internet Watch Foundation nominate a representative to the Funding Council. The Funding Council meet six times a year to discuss Internet Watch Foundation & member business. The role of the Funding Council is to

- to consider policy issues affecting Internet Watch Foundation in order to brief Board representatives with Members' views,
- to contribute funds and ensure renewal of funds for the operation of Internet Watch Foundation,
- to advise on the annual Internet Watch Foundation budget, significant changes and the use of material unbudgeted surpluses,
- to select three industry Members for the Internet Watch Foundation board,
- to advise on and approve the Members' code of practice.

The Funding Council Constitution describes how the Council conducts its business. Funding Council determines its own constitution and terms of membership and elects three Board members to represent industry views on the main IWF Board.

The independent Chair is appointed by the Board through an open selection procedure managed by the Nominations committee, comprising the two Vice-chairs and an independent person.

**POLICIES ADOPTED FOR THE INDUCTION AND TRAINING OF TRUSTEES**

All new Board members undergo an induction process and training which allows them to understand the role of IWF and their role as Directors and Trustees.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**ORGANISATIONAL STRUCTURE AND DECISION MAKING**

In order to facilitate a better understanding of issues and to enable more effective decision making, the Board operates an Audit Committee. The Audit Committee has no delegated power and all major decisions are made by the Board of Trustees. The Board sets, monitors and reviews strategy and delegates the operational management of the organisation to the Chief Executive.

**RELATED PARTY RELATIONSHIPS**

All major decisions are made by the Board of Trustees. The industry Members of the Charity are members of the Funding Council which in itself considers various policy matters relating to the IWF, elects three of the Trustees and briefs all its elected Trustees on industry views on relevant matters.

IWF works in partnership with representatives from the UK internet industry, police and government departments in order to minimise the availability of the specific potentially criminal content found online in the UK and in the case of child sexual abuse material hosted outside the UK, with other hotlines abroad.

**RISK MANAGEMENT**

Risk review is an integral part of the planning, budget, forecasting and management cycle of IWF and takes into account

- Variations in income streams and expenditure which is addressed through budgeting and expenditure controls,
- During the 2011-12 year, our welfare arrangements were reviewed by a Consultant Forensic Psychiatrist who made a number of recommendations as to how they could be improved. These have been implemented in 2012/2013 with a new welfare system in place,
- Potential liabilities which have been indemnified through appropriate insurances,
- Information security, hardware and operational risks to comply with ISO 27001 standards,
- Property and assets where IWF has audited procedures in place.

IWF Executive regularly reviews all potential risks faced and identifies these in a Risk Matrix and through an Information Security Management System. Information Security Incident forms have been introduced and the senior management team has a standing agenda item on risk issues and ISO non-compliance. The Board of Trustees considers risk issues and reviews policy through its Audit Committee. The systems of internal control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include a strategic plan, an annual plan, an annual budget approved by the Trustees, regular consideration by the Trustees of financial results, variances from budgets, non-financial performance indicators and benchmarking reviews, delegation of authority and segregation of duties and identification of management of risks.

**OBJECTIVES AND ACTIVITIES**

**PUBLIC BENEFIT**

The Charity's declared objects are the promotion of the care and protection of the health and welfare of the public, in particular children, by working to minimise the availability of offences involving exposure to illegal content on the internet and the prevention of crime relating to offences involving exposure to illegal content on the internet. In the exercise of our powers to that end we have paid due regard to the published guidance from the Charity Commission on the operation of the Public Benefit requirement under the Charities Act 2006.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**REMIT**

To minimise the availability of potentially criminal internet content specifically

- Images of child sexual abuse hosted anywhere in the world
- Criminally obscene adult content hosted in the UK
- Non-photographic child sexual abuse images hosted in the UK

**ROLE**

To foster public trust and confidence in the internet by

- Operating a national hotline to enable the public to report instances of potentially criminal online content within remit
- Promoting awareness of its remit and role, and the assistance provided to industry and law enforcement partners
- Promoting awareness of its self-regulatory function, and the role of other key stakeholders in making the internet safer

To assist service providers to combat the abuse of their systems by

- Operating a 'notice and take-down' service to remove potentially criminal online content at source by alerting hosting companies to content within remit on their servers
- Providing a list of newsgroups related to child sexual abuse content to enable service providers to disrupt the distribution of this content via such groups
- Providing a list of specific URLs hosted abroad with child sexual abuse content to enable service providers to prevent inadvertent access to this content
- Acting as a relevant authority and point of expertise as regards the reporting, handling, assessment, and tracing of content within remit

To assist law enforcement in the fight against potentially criminal online content by

- Disrupting the online distribution and accessing of content within remit
- Working with law enforcement agencies to remove online content within remit
- Supporting investigations to trace those responsible for such criminal activity
- Providing details of online child sexual abuse content hosted outside the UK to international Hotlines
- Sharing expertise, experience, and intelligence with law enforcement and other relevant organisations

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**ACHIEVEMENTS AND PERFORMANCE**

**GOING CONCERN**

After making appropriate enquiries, the trustees have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**REVIEW OF ACTIVITIES**

IWF continues to provide a Hotline which receives reports from members of the public when they have been exposed to potentially criminal online content within our remit. If this content appears to be in the UK, the police are informed and takedown notices are issued to the hosting company. This process has reduced the proportion of child sexual abuse content known to the IWF hosted in the UK from 18% in 1997 to less than 1% since 2003. Where child sexual abuse content appears to be outside of the UK, the information is passed to the relevant Hotline or law enforcement agency or trusted partner for that country. Whilst it is being assessed under that country's legislation, the URL is added to a dynamic list provided to Member companies to help disrupt access to the images, and to prevent inadvertent access by innocent consumers. The list fluctuates but averages around 500 URLs a day, and is updated twice a day.

During 2012, the Hotline team processed 39,211 reports of which 91% alleged child sexual abuse content. Of these, 9,696 were confirmed as potential child sexual abuse content by the IWF Hotline Analysts. The IWF issued 35 notices to remove content hosted in the UK on 73 webpages and more than half were removed in under 60 minutes. The IWF took action regarding 9,550 instances of publicly available child sexual abuse content hosted on websites around the world and 146 takedown notices were issued for newsgroups hosting child sexual abuse content.

Internet Watch Limited carries out work which the Board of IWF considers to be compatible with its aims and objectives and includes income from Licensees that pay a usage fee when they incorporate the IWF list into their products for filtering access to websites.

**FINANCIAL REVIEW**

**RESERVES AND INVESTMENTS POLICY**

IWF's objective is to maintain the value of its investment and take into account

- an appropriate level of liquidity which enables the smoothing of cash flow and unexpected changes in income or operations,
- the timescales and commitments in winding up the operations of the IWF, and
- minimising risk and avoiding speculative investments,

The following principles remain relevant despite the current financial situation

- A sum equivalent to 50% of the annual running costs of IWF should be set aside as a reserve and should be appropriately invested,
- The investments are to be held in such a way as to maintain their value to IWF and are not held specifically to generate on-going income,
- The Trustees should be mindful of the advice received with regard to investment options and that equity investment is currently not appropriate,
- At present IWF will not look to hold investments for the long term and the charity will request any donated portfolios be liquidated prior to transfer to IWF,
- No deposits will be made in offshore or overseas accounts,

Income for the financial year 2012/13 for IWF and IWL was healthy. 9 new Members and 1 new licensee were recruited which led to predicted income being exceeded, despite 6 resignations two of which were due to mergers.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**PRINCIPAL FUNDING**

Our principal funding is received via subscriptions from industry Members and the European Union via their Safer Internet Programme. The key objective is running the Hotline and all of the expenditure incurred is directly in pursuance of our charitable objectives.

**STRATEGIC PROGRAMME PLANS FOR THE FUTURE**

With the commencement of a new Chair and new Chief Executive in 2011/2012 the Strategic Plan was revisited and a new three year plan was developed for 2012/2015. The plan identified the key activities in pursuance of our charitable objectives and progress is reported twice yearly to the Board. The Board approved a deficit budget for the year using reserves.

**TRUSTEES' RESPONSIBILITIES STATEMENT**

The Trustees (who are also directors of Internet Watch Foundation for the purposes of company law) are responsible for preparing the Trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year. Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the Trustees are required to

- select suitable accounting policies and then apply them consistently,
- observe the methods and principles in the Charities SORP,
- make judgments and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable group will continue in operation.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company and the group's transactions and disclose with reasonable accuracy at any time the financial position of the charitable group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**PROVISION OF INFORMATION TO AUDITORS**

Each of the persons who are Trustees at the time when this Trustees' report is approved has confirmed that

- so far as that Trustee is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- each Trustee has taken all the steps that ought to have been taken as a Trustee in order to be aware of any information needed by the company and the group's auditors in connection with preparing their report and to establish that the company and the group's auditors are aware of that information

In preparing this report, the Trustees have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006

This report was approved by the Trustees on 3 Sept 2013 and signed on their behalf by

R.R. Tilt

**Sir R Tilt**

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**INTERNET WATCH FOUNDATION**  
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION**

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We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2013 set out on pages 10 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities)

**RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS**

As explained more fully in the trustees' responsibilities statement, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditors under the Companies Act 2006 and section 151 of the Charities Act 2011 and report to you in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Trustees, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Trustees' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2013 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 2011.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Trustees' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**INTERNET WATCH FOUNDATION**  
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION**

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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Act 2011 requires us to report to you if, in our opinion

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent charitable company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of trustees' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the Trustees were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Trustees' report

Judith Coplowe (senior statutory auditor)

for and on behalf of

**Peters Elworthy & Moore**

Chartered Accountants  
Statutory Auditors

Salisbury House  
Station Road  
Cambridge  
CB1 2LA  
28 November 2013

Peters Elworthy & Moore are eligible to act as auditors in terms of section 1212 of the Companies Act 2006

**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**  
(incorporating income and expenditure account)  
**FOR THE YEAR ENDED 31 MARCH 2013**

	Note	Restricted funds 2013 £	Unrestricted funds 2013 £	Total funds 2013 £	Total funds 2012 £
<b>INCOMING RESOURCES</b>					
Incoming resources from generated funds					
Voluntary income	2	10,000	70,764	80,764	25,373
Investment income	3	-	13,832	13,832	17,583
Incoming resources from charitable activities	4	366,535	1,012,261	1,378,796	1,228,412
<b>TOTAL INCOMING RESOURCES</b>		<b>376,535</b>	<b>1,096,857</b>	<b>1,473,392</b>	<b>1,271,368</b>
<b>RESOURCES EXPENDED</b>					
Charitable activities	5	337,185	1,202,244	1,539,429	1,251,034
Governance costs	6	-	94,770	94,770	156,001
<b>TOTAL RESOURCES EXPENDED</b>	7	<b>337,185</b>	<b>1,297,014</b>	<b>1,634,199</b>	<b>1,407,035</b>
<b>MOVEMENT IN TOTAL FUNDS FOR THE YEAR - NET INCOME/(EXPENDITURE) FOR THE YEAR</b>		<b>39,350</b>	<b>(200,157)</b>	<b>(160,807)</b>	<b>(135,667)</b>
Total funds at 1 April 2012		-	1,200,907	1,200,907	1,336,574
<b>TOTAL FUNDS AT 31 MARCH 2013</b>		<b>39,350</b>	<b>1,000,750</b>	<b>1,040,100</b>	<b>1,200,907</b>

The notes on pages 13 to 24 form part of these financial statements

**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**  
**REGISTERED NUMBER. 03426366**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2013**

	Note	£	2013 £	£	2012 £
<b>FIXED ASSETS</b>					
Tangible assets	10		72,855		130,078
<b>CURRENT ASSETS</b>					
Debtors	12	240,063		386,044	
Investments	13	1,012,660		934,451	
Cash at bank and in hand		159,102		117,073	
		<u>1,411,825</u>		<u>1,437,568</u>	
<b>CREDITORS</b> amounts falling due within one year	14	(444,580)		(366,739)	
<b>NET CURRENT ASSETS</b>			<u>967,245</u>		<u>1,070,829</u>
<b>NET ASSETS</b>			<u>1,040,100</u>		<u>1,200,907</u>
<b>CHARITY FUNDS</b>					
Restricted funds	16		39,350		-
Unrestricted funds	16		1,000,750		1,200,907
<b>TOTAL FUNDS</b>			<u>1,040,100</u>		<u>1,200,907</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements were approved by the Trustees on 3 Sept 2013 and signed on their behalf, by

R. R. Tilt

Sir R Tilt

The notes on pages 13 to 24 form part of these financial statements

**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)  
REGISTERED NUMBER: 03426366

**COMPANY BALANCE SHEET**  
**AS AT 31 MARCH 2013**

	Note	£	2013 £	£	2012 £
<b>FIXED ASSETS</b>					
Tangible assets	10		72,855		130,078
Investments	11		2		2
			<u>72,857</u>		<u>130,080</u>
<b>CURRENT ASSETS</b>					
Debtors	12	264,729		444,052	
Investments	13	1,012,660		934,451	
Cash at bank and in hand		77,447		19,046	
		<u>1,354,836</u>		<u>1,397,549</u>	
<b>CREDITORS</b> amounts falling due within one year	14	(407,593)		(346,722)	
<b>NET CURRENT ASSETS</b>			<u>947,243</u>		<u>1,050,827</u>
<b>NET ASSETS</b>			<u>1,020,100</u>		<u>1,180,907</u>
<b>CHARITY FUNDS</b>					
Restricted funds	16		39,350		-
Unrestricted funds	16		980,750		1,180,907
<b>TOTAL FUNDS</b>			<u>1,020,100</u>		<u>1,180,907</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements were approved by the Trustees on 3 Sept 2013 and signed on their behalf, by

  
Sir R Tilt

The notes on pages 13 to 24 form part of these financial statements

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**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**1. ACCOUNTING POLICIES**

**1.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008). The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in March 2005, applicable accounting standards and the Companies Act 2006.

**1.2 BASIS OF CONSOLIDATION**

The statement of financial activities (SOFA) and balance sheet consolidate the financial statements of the company and its subsidiary undertaking. The results of the subsidiary are consolidated on a line by line basis.

No separate SOFA has been presented for the company alone as permitted by section 408 of the Companies Act 2006 and paragraph 397 of the SORP.

**1.3 COMPANY STATUS**

The company is a company limited by guarantee. The members of the company are subscribers to the Foundation. In the event of the company being wound up, the liability in respect of the guarantee is limited to £1 per member of the company.

**1.4 FUND ACCOUNTING**

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the company and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the company for particular purposes. The costs of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

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**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**1. ACCOUNTING POLICIES (continued)**

**1.5 INCOMING RESOURCES**

All incoming resources are included in the Statement of Financial Activities when the company is legally entitled to the income and the amount can be quantified with reasonable accuracy. Where subscriptions have been invoiced for a period beyond the accounting date, the income relating to the period after each year end is treated as deferred income and carried forward to the next accounting period.

**Voluntary income** Donations are accounted for as received. Sponsorship income represents amounts receivable. Gifts in kind to the charity are included at the value specified by the donor or, if this is not available, at estimated cost to the charity.

**Grants** Grants are included as incoming resources when these are received / receivable.

**Capital grants** Capital grants received for specific purposes are initially treated as restricted income and are transferred to unrestricted reserves upon completion of the project to which they relate.

**IWL income** Licence fees to non-members of Internet Watch Foundation are spread over the period to which they relate with income relating to the period after each year treated as deferred income and carried forward to the next accounting period. Unit charges to members of Internet Watch Foundation are invoiced in arrears once the number of units has been ascertained and notified by the member to the company. The charges are spread over the period to which they relate with income relating to the period up to the year end treated as accrued income.

**1.6 RESOURCES EXPENDED**

All expenditure is accounted for on an accruals basis.

**Charitable activities** Resources expended on charitable activities include all costs of running the hotline.

**Governance costs** Governance costs include professional fees relating to the statutory management of the charity.

**1.7 TANGIBLE FIXED ASSETS AND DEPRECIATION**

All assets costing more than £500 are capitalised.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	Over the life of the lease
Office equipment	-	33 33% straight line
Computer equipment	-	33 33% straight line
RMS	-	40% straight line



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**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2013**

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**1. ACCOUNTING POLICIES (continued)**

**1.8 INVESTMENTS**

Investments are stated at market value at the balance sheet date. The statement of financial activities includes the net gains and losses arising on revaluations and disposals throughout the year.

Investments in subsidiaries are valued at cost less provision for impairment.

**1.9 CURRENT ASSET INVESTMENTS**

Current asset investments represent cash deposits held.

**1.10 OPERATING LEASES**

Rentals under operating leases are charged to the statement of financial activities on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

**1.11 FOREIGN CURRENCIES**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of financial activities.

**1.12 PENSIONS**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2013**

**2. VOLUNTARY INCOME**

	Restricted funds 2013 £	Unrestricted funds 2013 £	Total funds 2013 £	Total funds 2012 £
Donations	10,000	68,614	78,614	25,373
Sponsorship	-	2,150	2,150	-
	<u>10,000</u>	<u>70,764</u>	<u>80,764</u>	<u>25,373</u>

Donations in the year include £65,000 in respect of donated services and facilities received from a number of donors including BT Group plc, British Sky Broadcasting Group plc, ComRes, Salesforce, South Cambridgeshire District Council, Your Print Partner

**3. INVESTMENT INCOME**

	Unrestricted funds 2013 £	Total funds 2013 £	Total funds 2012 £
Charitable parent company	13,750	13,750	17,575
Trading subsidiary	82	82	8
	<u>13,832</u>	<u>13,832</u>	<u>17,583</u>

**4. INCOMING RESOURCES FROM CHARITABLE ACTIVITIES**

	2013 £	2012 £
Subscription fee income	839,785	866,758
EU grant income	363,347	209,697
IWL income	170,977	151,957
IFFOR grant income	3,188	-
Miscellaneous Income	1,499	-
	<u>1,378,796</u>	<u>1,228,412</u>

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**5. CHARITABLE ACTIVITIES**

Charitable activities are analysed as follows

	Total 2013 £	As restated Total 2012 £
Systems and communications	355,930	276,435
Premises	123,273	93,198
Finance and administration	85,101	51,719
Recruitment	8,260	25,620
Other staff costs	40,953	34,613
Wages and salaries	721,282	628,039
National insurance	76,809	53,400
Pension cost	57,649	32,535
Depreciation	70,172	55,475
	<u>1,539,429</u>	<u>1,251,034</u>

The 2012 comparative balances have been restated to more accurately represent the split of charitable activities

**6 GOVERNANCE COSTS**

	Total funds 2013 £	Total funds 2012 £
Auditors' remuneration	5,450	5,145
Auditors' non audit costs	12,778	5,636
Costs of trustees' meetings	32,232	27,933
Governance review	-	9,500
Recruitment - Trustees and New Chair	-	60,955
Funding Council secretariat costs	22,600	21,200
Chair's fees	20,500	20,000
Trustee training	1,210	5,632
	<u>94,770</u>	<u>156,001</u>

**7. ANALYSIS OF RESOURCES EXPENDED BY EXPENDITURE TYPE**

	Staff costs 2013 £	Depreciation 2013 £	Other costs 2013 £	Total 2013 £	Total 2012 £
Cost of Charitable Activities	855,740	70,172	613,517	1,539,429	1,251,034
Governance	-	-	94,770	94,770	156,001
	<u>855,740</u>	<u>70,172</u>	<u>708,287</u>	<u>1,634,199</u>	<u>1,407,035</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**8. NET INCOME / (EXPENDITURE)**

This is stated after charging

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Depreciation of tangible fixed assets		
- owned by the charitable group	<b>70,172</b>	55,475
Auditors' remuneration	<b>5,450</b>	5,145
Auditors' non audit remuneration	<b>12,778</b>	5,636
Pension costs	<b>57,649</b>	32,535

The 1 (2012 - 2) Chair in office during the year received £20,500 (2012 - £20,000) in respect of his duties in this office. This sum is included within Governance Costs.

Section 6 of the Memorandum of Association of Internet Watch Foundation permits payments to a maximum of three trustees attending each board meeting. During the year, a total of 5 (2012 - 3) trustees were paid in respect of their duties and these amounted to a total of £13,380 (2012 - £5,700).

No (2012 - 5) directors of Internet Watch Limited were paid by Internet Watch Limited during the year in respect of their duties as directors of Internet Watch Limited (2012 - £7,500 paid).

5 (2012 - 8) trustees received reimbursements of expenses amounting to £9,618 (2012 - £5,418). At 31 March 2013, £589 (2012 - £NIL) was owed to the trustees.

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**9. STAFF COSTS**

Staff costs were as follows

	2013 £	2012 £
Wages and salaries	721,282	628,039
Social security costs	76,809	53,400
Other pension costs	57,649	32,535
	<u>855,740</u>	<u>713,974</u>

The average monthly number of employees during the year was as follows

	2013 No.	2012 No
Charitable activities	<u>20</u>	<u>18</u>

The number of higher paid employees was

	2013 No	2012 No
In the band £60,001 - £70,000	0	2
In the band £70,001 - £80,000	1	1
In the band £80,001 - £90,000	1	1
In the band £90,001 - £100,000	1	0
	<u>3</u>	<u>4</u>

All of the higher paid employees above have rights accruing to them under the money purchase pension scheme operated by the group. The contributions in the year in respect of these employees totalled £21,322 (2012 - £11,020)

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**10 TANGIBLE FIXED ASSETS**

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
<b>GROUP</b>				
<b>COST</b>				
At 1 April 2012	97,735	17,080	96,364	211,179
Additions	2,573	3,444	6,932	12,949
At 31 March 2013	100,308	20,524	103,296	224,128
<b>DEPRECIATION</b>				
At 1 April 2012	27,149	16,956	36,996	81,101
Charge for the year	33,559	864	35,749	70,172
At 31 March 2013	60,708	17,820	72,745	151,273
<b>NET BOOK VALUE</b>				
At 31 March 2013	39,600	2,704	30,551	72,855
At 31 March 2012	70,586	124	59,368	130,078
	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
<b>COMPANY</b>				
<b>COST</b>				
At 1 April 2012	97,735	12,648	96,364	206,747
Additions	2,573	3,444	6,932	12,949
At 31 March 2013	100,308	16,092	103,296	219,696
<b>DEPRECIATION</b>				
At 1 April 2012	27,149	12,524	36,996	76,669
Charge for the year	33,559	864	35,749	70,172
At 31 March 2013	60,708	13,388	72,745	146,841
<b>NET BOOK VALUE</b>				
At 31 March 2013	39,600	2,704	30,551	72,855
At 31 March 2012	70,586	124	59,368	130,078

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**11. INVESTMENT IN TRADING SUBSIDIARY**

The principal activity of the company is to undertake trading activities on behalf of Internet Watch Foundation, its parent charity, which are considered to be compatible with its aims and charitable objectives. During the year ended 31 March 2013, its income was derived from licensees that pay the usage fee when they incorporate the IWF URL list into their products(s) for filtering access to websites. Income was derived from the same sources during the year end 31 March 2013.

Within the charitable company balance sheet, the investment in the subsidiary is held at a cost of £2.

A summary of the results of the subsidiary is shown below:

	2013 £	2012 £
Turnover	172,476	151,957
Administrative expenses	(30,136)	(12,171)
Deed of covenant payable to parent charity	(142,422)	(139,794)
Operating (loss)	(82)	(8)
Interest receivable	82	8
Retained in subsidiary	-	-
<b>Balance Sheet</b>		
Current assets	196,035	182,064
Current liabilities	(176,033)	(162,062)
Net Assets	20,002	20,002
Share capital and reserves	20,002	20,002

**12. DEBTORS**

	<b>GROUP</b>		<b>COMPANY</b>	
	2013 £	2012 £	2013 £	2012 £
Trade debtors	75,635	60,275	33,739	43,245
Amounts owed by group undertakings	-	-	139,046	142,045
Prepayments and accrued income	164,428	325,769	91,944	258,762
	240,063	386,044	264,729	444,052

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**13. CURRENT ASSET INVESTMENTS**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Short term deposits	<b>1,012,660</b>	<b>934,451</b>	<b>1,012,660</b>	<b>934,451</b>

**14. CREDITORS:  
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade creditors	<b>64,633</b>	<b>77,696</b>	<b>64,633</b>	<b>77,699</b>
Other taxation and social security	<b>52,566</b>	<b>27,524</b>	<b>49,266</b>	<b>24,524</b>
Accruals	<b>49,354</b>	<b>8,015</b>	<b>46,501</b>	<b>5,990</b>
Deferred income	<b>278,027</b>	<b>253,504</b>	<b>247,193</b>	<b>238,509</b>
	<b>444,580</b>	<b>366,739</b>	<b>407,593</b>	<b>346,722</b>

	<b>GROUP</b>	<b>COMPANY</b>
	<b>£</b>	<b>£</b>
<b>DEFERRED INCOME</b>		
Deferred income at 1 April 2012	<b>253,504</b>	<b>238,509</b>
Resources deferred during the year	<b>278,027</b>	<b>247,193</b>
Amounts released from previous years	<b>(253,504)</b>	<b>(238,509)</b>
Deferred income at 31 March 2013	<b>278,027</b>	<b>247,193</b>

Where subscriptions and licence fees have been invoiced for a period beyond the accounting date, the income relating to the period after each year end is treated as deferred income and carried forward to the next accounting period

**15. ANALYSIS OF NET ASSETS BETWEEN FUNDS**

	<b>Restricted funds</b>	<b>Unrestricted funds</b>	<b>Total funds</b>	<b>Total funds</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Tangible fixed assets	-	<b>72,855</b>	<b>72,855</b>	<b>130,078</b>
Current assets	<b>39,350</b>	<b>1,372,475</b>	<b>1,411,825</b>	<b>1,437,568</b>
Creditors due within one year	-	<b>(444,580)</b>	<b>(444,580)</b>	<b>(366,739)</b>
	<b>39,350</b>	<b>1,000,750</b>	<b>1,040,100</b>	<b>1,200,907</b>



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**16. STATEMENT OF FUNDS**

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
<b>DESIGNATED FUNDS</b>					
RMS Fund	41,953	-	(23,973)	-	17,980
Office Move Fund	70,586	-	(33,560)	2,574	39,600
	<u>112,539</u>	<u>-</u>	<u>(57,533)</u>	<u>2,574</u>	<u>57,580</u>
<b>GENERAL FUNDS</b>					
General funds	1,068,366	924,299	(1,209,343)	139,848	923,170
Subsidiary company	20,002	172,558	(30,138)	(142,422)	20,000
	<u>1,088,368</u>	<u>1,096,857</u>	<u>(1,239,481)</u>	<u>(2,574)</u>	<u>943,170</u>
Total Unrestricted funds	<u>1,200,907</u>	<u>1,096,857</u>	<u>(1,297,014)</u>	<u>-</u>	<u>1,000,750</u>
<b>RESTRICTED FUNDS</b>					
IFFOR Grant	-	3,188	(3,188)	-	-
Safe to Go Grant	-	49,957	(49,957)	-	-
EU SIC II Grant	-	313,390	(274,040)	-	39,350
Linx Donation	-	10,000	(10,000)	-	-
	<u>-</u>	<u>376,535</u>	<u>(337,185)</u>	<u>-</u>	<u>39,350</u>
Total of funds	<u>1,200,907</u>	<u>1,473,392</u>	<u>(1,634,199)</u>	<u>-</u>	<u>1,040,100</u>

IFFOR Grant	This fund represents a grant from the International Foundation for Online Responsibility to assist with meeting the costs of a newsgroups research project run in partnership with The Lucy Faithful Foundation
Safe to Go Grant	This fund represents a grant from the European Union, covering an 18 month period from 1 January 2011 with 50% of the monies due paid in advance with the balance payable on submission of the final claim. This is in respect of assistance in meeting the costs of running the Hotline
EU SIC II Grant	This fund represents a grant from the European Union, covering an 28 month period from 1 July 2012 with 40% of the monies due paid in advance with the balance payable on submission of the final claim. This is in respect of assistance in meeting the costs of running the Hotline
Linx Donation	This is in respect of assistance in meeting the costs of the design and print of the group annual report
RMS Fund	This designated fund was established to provide funds in order to purchase a new RMS system. The expenditure in the year relates to the depreciation charged on the RMS III system

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**16. STATEMENT OF FUNDS (continued)**

Office Move                      This designated fund was been established to provide funds for the office move that occurred in the year. The remaining balance represents the net book value of the leasehold improvements at 31 March 2013

**SUMMARY OF FUNDS**

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
Designated funds	112,539	-	(57,533)	2,574	57,580
General funds	1,088,368	1,096,857	(1,239,481)	(2,574)	943,170
	<u>1,200,907</u>	<u>1,096,857</u>	<u>(1,297,014)</u>	<u>-</u>	<u>1,000,750</u>
Restricted funds	-	376,535	(337,185)	-	39,350
	<u>1,200,907</u>	<u>1,473,392</u>	<u>(1,634,199)</u>	<u>-</u>	<u>1,040,100</u>

**17. PENSION COMMITMENTS**

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £57,649 (2012 - £32,535). As at 31 March 2013 £5,550 (2012 - £Nil) was outstanding.

**18. OPERATING LEASE COMMITMENTS**

At 31 March 2013 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2013	2012	2013	2012
	£	£	£	£
<b>GROUP AND COMPANY</b>				
<b>EXPIRY DATE:</b>				
Between 2 and 5 years	<u>58,281</u>	<u>54,081</u>	<u>1,068</u>	<u>1,068</u>

**19. RELATED PARTY TRANSACTIONS**

IWF works in partnership with the UK Internet industry, police, government departments and Hotlines in other countries in order to minimise the availability of specific illegal content found online. Member companies subscribe to the IWF with subscriptions levels ranging from £1,000 to in excess of £20,000.

The group has taken advantage of the exemptions under FRS 8 from the requirement to disclose transactions with the other members of the group.