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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 2014**

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

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**INTERNET WATCH FOUNDATION**  
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**REFERENCE AND ADMINISTRATIVE DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**Trustees**

Sir R Tilt, Chair  
Sir R G Brooke (resigned 31 August 2013)<sup>2</sup>  
Ms N E Cohen (resigned 31 December 2013)<sup>2</sup>  
Mrs C L Crawford (appointed 1 September 2013)<sup>2</sup>  
Mr J I Drori (appointed 1 September 2013)<sup>2</sup>  
Mr P J Geering<sup>2</sup>  
Mr A E Leadley-Yoward<sup>1</sup>  
Ms M MacLeod<sup>2</sup>  
Mr P W Neyroud<sup>2</sup>  
Ms S E Pillar (appointed 1 January 2014)<sup>2</sup>  
Mr J E Shipp<sup>1</sup>  
Dr S N Walton (resigned 31 August 2013)<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**

Discovery House, Chivers Way, Histon, Cambridge, CB24 9ZR

**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 2014**

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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 2014. 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 and 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.

**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

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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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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, the 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 since 2012/2013 and the new welfare system is working well.
- 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.

**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.

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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**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.

**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 2013, the Hotline team processed 51,186 reports of which 93% alleged child sexual abuse content. Of these, 13,330 were confirmed as potential child sexual abuse content by the IWF Hotline Analysts. The IWF issued 43 notices to remove content hosted in the UK on 92 webpages and 58% were removed in 120 minutes or less. 148 takedown notices were issued for newsgroups hosting child sexual abuse content.

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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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During 2013 the IWF assessed 3,209 reports of alleged criminally obscene content. However, only 7 were hosted within the UK and therefore within the IWF's remit.

**Types of content**

	<b>2013</b>	<b>2012</b>
% of children appearing to be 10 years or under	81	81
% of children appearing to be 2 years or under	3	4
% showing sexual activity between adults and children including rape or sexual torture	51	53
% of images where victims are girls	76	75
% of images where victims are boys	10	10
% of images with both genders	9	11

In 2013, the IWF processed 31% more reports than in 2012 (39,211).

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 2013/14 for IWF and IWL was healthy. At the end of 2013/14 the IWF had 110 members.

The IWF recruited 19 Members during that financial period with five resignations, one of which was due to a merger with another Member.

### **PRINCIPAL FUNDING**

Our principal funding is received via subscriptions from industry Members and the European Union via their

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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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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**

2013/14 became the biggest year of developments in the IWF's 18 year history. In June 2013 the UK Government held the first of two summits inviting key internet industry representatives, the police and the IWF to discuss what more could be done individually and collectively to counter the problem of child sexual abuse images and videos online. A key outcome was a request from Government for the IWF to actively seek out content from April 2014.

In July 2013 IWF received a grant of £1 million from Google for an additional five content analysts payable over four years. By December, a significant new membership fee structure was agreed which would enable the recruitment of a further two analysts, move to alternative premises and establish a programme of harm reduction and research activities.

In 2013 the number of Parliamentary Champions increased to 73 and these include MPs, MEPs, and Members of the Legislative Assembly, Welsh Assembly and House of Lords.

IWF's international programme has also gone from strength to strength. Partnerships have been agreed with the International Telecommunications Unions (ITU) and the Commonwealth Cybercrime Initiative (CCI) to promote the implementation of OCSARP – the Online Child Sexual Abuse Reporting Portal. Mauritius became the first country to implement OCSARP. The first ITU-backed countrywide assessment in Uganda was also completed which resulted in a commitment to implement OCSARP in 2014.

During the year the IWF was called upon to speak at over 60 events nationally and internationally.

Following this unprecedented level of activity and expansion, the Board commissioned a new strategy which identified the key activities in pursuance of the charitable objectives and progress is reported twice yearly to the Board. The Board approved a deficit budget for the year using reserves to enable the development programme to be implemented.

**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



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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

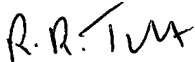
**PROVISION OF INFORMATION TO AUDITORS**

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 9/9/14 and signed on their behalf by:



**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 2014 which comprise the group statement of financial activities, the group and company balance sheets and the related notes. 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 145 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 to take advantage of the small companies' exemption from the requirement to prepare a group strategic report or 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  
24 November 2014

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 2014**

	Note	Restricted funds 2014 £	Unrestricted funds 2014 £	Total funds 2014 £	Total funds 2013 £
<b>INCOMING RESOURCES</b>					
Incoming resources from generated funds:					
Voluntary income	2	-	66,823	66,823	80,764
Investment income	3	-	9,287	9,287	13,832
Incoming resources from charitable activities	4	611,061	1,066,590	1,677,651	1,378,796
<b>TOTAL INCOMING RESOURCES</b>		<b>611,061</b>	<b>1,142,700</b>	<b>1,753,761</b>	<b>1,473,392</b>
<b>RESOURCES EXPENDED</b>					
Charitable activities	5	650,411	1,001,266	1,651,677	1,539,429
Governance costs	6	-	76,813	76,813	94,770
<b>TOTAL RESOURCES EXPENDED</b>	7	<b>650,411</b>	<b>1,078,079</b>	<b>1,728,490</b>	<b>1,634,199</b>
<b>MOVEMENT IN TOTAL FUNDS FOR THE YEAR - NET INCOME/(EXPENDITURE) FOR THE YEAR</b>		<b>(39,350)</b>	<b>64,621</b>	<b>25,271</b>	<b>(160,807)</b>
Total funds at 1 April 2013		39,350	1,000,750	1,040,100	1,200,907
<b>TOTAL FUNDS AT 31 MARCH 2014</b>		<b>-</b>	<b>1,065,371</b>	<b>1,065,371</b>	<b>1,040,100</b>

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

**INTERNET WATCH FOUNDATION**  
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**REGISTERED NUMBER: 03426366**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2014**

	Note	£	2014 £	£	2013 £
<b>FIXED ASSETS</b>					
Tangible assets	10		27,229		72,855
<b>CURRENT ASSETS</b>					
Debtors	12	192,780		240,063	
Investments	13	858,189		1,012,660	
Cash at bank and in hand		446,061		159,102	
		<u>1,497,030</u>		<u>1,411,825</u>	
<b>CREDITORS:</b> amounts falling due within one year	14	(458,888)		(444,580)	
<b>NET CURRENT ASSETS</b>			<u>1,038,142</u>		<u>967,245</u>
<b>NET ASSETS</b>			<u>1,065,371</u>		<u>1,040,100</u>
<b>CHARITY FUNDS</b>					
Restricted funds	16		-		39,350
Unrestricted funds	16		1,065,371		1,000,750
<b>TOTAL FUNDS</b>			<u>1,065,371</u>		<u>1,040,100</u>

The financial statements have been prepared in accordance with the provisions applicable to small companies 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 and authorised for issue by the Trustees on 9/9/14 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**  
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**REGISTERED NUMBER: 03426366**

**COMPANY BALANCE SHEET**  
**AS AT 31 MARCH 2014**

	Note	£	2014 £	£	2013 £
<b>FIXED ASSETS</b>					
Tangible assets	10		27,229		72,855
Investments	11		2		2
			<u>27,231</u>		<u>72,857</u>
<b>CURRENT ASSETS</b>					
Debtors	12	272,629		125,683	
Investments	13	858,189		1,012,660	
Cash at bank and in hand		184,249		77,447	
		<u>1,315,067</u>		<u>1,215,790</u>	
<b>CREDITORS:</b> amounts falling due within one year	14	(410,863)		(410,969)	
<b>NET CURRENT ASSETS</b>			<u>904,204</u>		<u>804,821</u>
<b>NET ASSETS</b>			<u>931,435</u>		<u>877,678</u>
<b>CHARITY FUNDS</b>					
Restricted funds	16		-		39,350
Unrestricted funds	16		931,435		838,328
<b>TOTAL FUNDS</b>			<u>931,435</u>		<u>877,678</u>

The financial statements have been prepared in accordance with the provisions applicable to small companies 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 and authorised for issue by the Trustees on 9/9/14 and signed on their behalf, by:

Sir R Tilt

*R.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 2014**

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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 2014**

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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.

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 GOING CONCERN**

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements continue to be prepared on the going concern basis.

**1.8 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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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**1. ACCOUNTING POLICIES (continued)**

**1.9 INVESTMENTS**

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

**1.10 CURRENT ASSET INVESTMENTS**

Current asset investments represent cash deposits held.

**1.11 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.

**1.12 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.

**1.13 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.

**2. VOLUNTARY INCOME**

	<b>Restricted funds 2014 £</b>	<b>Unrestricted funds 2014 £</b>	<b>Total funds 2014 £</b>	<b>Total funds 2013 £</b>
Donations	-	66,823	66,823	78,614
Sponsorship	-	-	-	2,150
	<hr/>	<hr/>	<hr/>	<hr/>
Voluntary income	-	66,823	66,823	80,764
	<hr/>	<hr/>	<hr/>	<hr/>

Donations in the year include £52,550 in respect of donated services and facilities received from a number of donors including British Sky Broadcasting Group plc, ComRes, Salesforce, South Cambridgeshire District Council, Forlinux and John MacCarthy.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**3. INVESTMENT INCOME**

	Unrestricted funds 2014 £	Total funds 2014 £	Total funds 2013 £
Charitable parent company	7,916	7,916	13,750
Trading subsidiary	1,371	1,371	82
	<u>9,287</u>	<u>9,287</u>	<u>13,832</u>

**4. INCOMING RESOURCES FROM CHARITABLE ACTIVITIES**

	2014 £	2013 £
Subscription fee income	881,241	839,785
EU grant income	361,061	363,347
IVL income	178,951	170,977
Miscellaneous Income	6,398	1,499
Google grant income	250,000	-
IFFOR grant income	-	3,188
Total	<u>1,677,651</u>	<u>1,378,796</u>

**5. CHARITABLE ACTIVITIES**

Charitable activities are analysed as follows:

	Total 2014 £	Total 2013 £
Systems and communications	298,999	355,930
Premises	140,673	123,273
Finance and administration	110,119	85,101
Recruitment	37,426	8,260
Costs incurred by subsidiary	28,484	-
Other staff costs	35,206	40,953
Wages and salaries	772,924	721,282
National insurance	83,863	76,809
Pension cost	72,796	57,649
Depreciation	71,187	70,172
	<u>1,651,677</u>	<u>1,539,429</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014**

**6. GOVERNANCE COSTS**

	<b>Total funds 2014 £</b>	<b>Total funds 2013 £</b>
Auditors' remuneration	5,600	5,450
Auditors' non audit costs	3,206	12,778
Costs of trustees' meetings	23,676	32,232
Funding Council secretariat costs	22,400	22,600
Chair's fees	20,992	20,500
Trustee training	939	1,210
	<u>76,813</u>	<u>94,770</u>

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

	<b>Staff costs 2014 £</b>	<b>Depreciation 2014 £</b>	<b>Other costs 2014 £</b>	<b>Total 2014 £</b>	<b>Total 2013 £</b>
Cost of Charitable Activities	929,583	71,187	650,907	1,651,677	1,539,429
Governance	-	-	76,813	76,813	94,770
	<u>929,583</u>	<u>71,187</u>	<u>727,720</u>	<u>1,728,490</u>	<u>1,634,199</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014**

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**8. NET INCOME / (EXPENDITURE)**

This is stated after charging:

	2014 £	2013 £
Depreciation of tangible fixed assets: - owned by the charitable group	71,187	70,172
Auditors' remuneration	5,600	5,450
Auditors' non audit remuneration	3,206	12,778
Pension costs	72,796	57,649
	<u>72,796</u>	<u>57,649</u>

The Chair received £20,992 (2013 - £20,500) during the year 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 6 (2013 - 5) trustees were paid in respect of their duties and these amounted to a total of £11,654 (2013 - £13,380).

6 (2013 - 5) trustees received reimbursements of expenses amounting to £10,973 (2013 - £9,618). At 31 March 2014, £NIL (2013 - £589) was owed to the trustees.

**9. STAFF COSTS**

Staff costs were as follows:

	2014 £	2013 £
Wages and salaries	772,924	721,282
Social security costs	83,863	76,809
Other pension costs	72,796	57,649
	<u>929,583</u>	<u>855,740</u>

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

	2014 No.	2013 No.
Charitable activities	<u>23</u>	<u>20</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**9. STAFF COSTS (continued)**

The number of higher paid employees was:

	2014 No.	2013 No.
In the band £70,001 - £80,000	1	1
In the band £80,001 - £90,000	0	1
In the band £90,001 - £100,000	0	1
In the band £100,001 - £110,000	1	0
	<u>2</u>	<u>3</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 £12,530 (2013 - £21,322).

**10. TANGIBLE FIXED ASSETS**

GROUP	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
<b>COST</b>				
At 1 April 2013	100,308	20,524	103,296	224,128
Additions	-	-	25,561	25,561
At 31 March 2014	<u>100,308</u>	<u>20,524</u>	<u>128,857</u>	<u>249,689</u>
<b>DEPRECIATION</b>				
At 1 April 2013	60,708	17,820	72,745	151,273
Charge for the year	39,600	1,148	30,439	71,187
At 31 March 2014	<u>100,308</u>	<u>18,968</u>	<u>103,184</u>	<u>222,460</u>
<b>NET BOOK VALUE</b>				
At 31 March 2014	<u>-</u>	<u>1,556</u>	<u>25,673</u>	<u>27,229</u>
At 31 March 2013	<u>39,600</u>	<u>2,704</u>	<u>30,551</u>	<u>72,855</u>

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**FOR THE YEAR ENDED 31 MARCH 2014**

**10. TANGIBLE FIXED ASSETS (continued)**

<b>COMPANY</b>	<b>Leasehold improvements £</b>	<b>Office equipment £</b>	<b>Computer equipment £</b>	<b>Total £</b>
<b>COST</b>				
At 1 April 2013	100,308	16,092	103,296	219,696
Additions	-	-	25,561	25,561
At 31 March 2014	100,308	16,092	128,857	245,257
<b>DEPRECIATION</b>				
At 1 April 2013	60,708	13,388	72,745	146,841
Charge for the year	39,600	1,148	30,439	71,187
At 31 March 2014	100,308	14,536	103,184	218,028
<b>NET BOOK VALUE</b>				
At 31 March 2014	-	1,556	25,673	27,229
At 31 March 2013	39,600	2,704	30,551	72,855

**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 2014, 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. This income is regarded as an extension of Internet Watch Foundation's activities.

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:

	<b>2014 £</b>	<b>As restated 2013 £</b>
Turnover	178,951	172,476
Administrative expenses	(34,827)	(30,136)
Deed of covenant payable to parent charity	(145,495)	-
Operating (loss)	(1,371)	142,340
Interest receivable	1,371	82
Corporation tax charge	-	(28,484)
<b>Loss for the year</b>	<b>-</b>	<b>113,938</b>

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	2014 £	As restated 2013 £
<b>INVESTMENT IN TRADING SUBSIDIARY (continued)</b>		
<b>Balance Sheet</b>		
Current assets	<b>361,465</b>	199,411
Current liabilities	<b>(227,525)</b>	(65,471)
<b>Net Assets</b>	<b>133,940</b>	133,940
<b>Share capital and reserves</b>	<b>133,940</b>	133,940

**12. DEBTORS**

	<b>GROUP</b>		<b>COMPANY</b>	
	2014 £	2013 £	2014 £	2013 £
Trade debtors	48,266	75,635	20,423	33,739
Amounts owed by group undertakings	-	-	179,502	-
Prepayments and accrued income	144,514	164,428	72,704	91,944
	<b>192,780</b>	240,063	<b>272,629</b>	125,683

**13. CURRENT ASSET INVESTMENTS**

	<b>GROUP</b>		<b>COMPANY</b>	
	2014 £	2013 £	2014 £	2013 £
Short term deposits	858,189	1,012,660	858,189	1,012,660

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade creditors	25,606	64,633	25,606	64,633
Amounts owed to group undertakings	-	-	-	3,376
Corporation tax	28,484	-	-	-
Other taxation and social security	29,420	52,566	29,420	49,266
Accruals	59,837	49,354	56,962	46,501
Deferred income	315,541	278,027	298,875	247,193
	<b>458,888</b>	<b>444,580</b>	<b>410,863</b>	<b>410,969</b>

	<b>GROUP</b>	<b>COMPANY</b>
	<b>£</b>	<b>£</b>
<b>DEFERRED INCOME</b>		
Deferred income at 1 April 2013	278,027	247,193
Resources deferred during the year	315,541	298,875
Amounts released from previous years	(278,027)	(247,193)
Deferred income at 31 March 2014	<b>315,541</b>	<b>298,875</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>2014</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Tangible fixed assets	-	27,229	27,229	72,855
Current assets	-	1,497,030	1,497,030	1,411,825
Creditors due within one year	-	(458,888)	(458,888)	(444,580)
	<b>-</b>	<b>1,065,371</b>	<b>1,065,371</b>	<b>1,040,100</b>



**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014**

**16. STATEMENT OF FUNDS**

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
<b>DESIGNATED FUNDS</b>					
RMS Fund	17,980	-	(17,980)	-	-
Office Move Fund	39,600	-	(39,600)	-	-
	<u>57,580</u>	<u>-</u>	<u>(57,580)</u>	<u>-</u>	<u>-</u>
<b>GENERAL FUNDS</b>					
General funds	923,170	962,378	(840,177)	(113,938)	931,433
Subsidiary company	20,000	180,322	(180,322)	113,938	133,938
	<u>943,170</u>	<u>1,142,700</u>	<u>(1,020,499)</u>	<u>-</u>	<u>1,065,371</u>
Total Unrestricted funds	<u>1,000,750</u>	<u>1,142,700</u>	<u>(1,078,079)</u>	<u>-</u>	<u>1,065,371</u>
<b>RESTRICTED FUNDS</b>					
EU SIC II Grant	39,350	361,061	(400,411)	-	-
Google donation	-	250,000	(250,000)	-	-
	<u>39,350</u>	<u>611,061</u>	<u>(650,411)</u>	<u>-</u>	<u>-</u>
Total of funds	<u>1,040,100</u>	<u>1,753,761</u>	<u>(1,728,490)</u>	<u>-</u>	<u>1,065,371</u>

EU SIC II Grant      This fund represents a grant from the European Union in respect of assistance in meeting the costs of running the Hotline.

Google donation      This fund represents a donation from Google in respect of the support of analyst positions.

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.

Office Move Fund      This designated fund was established to provide funds for the office move that occurred during the year ended 31 March 2012. The expenditure in the year relates to the depreciation charged on the leasehold improvements.

The transfer between IWF and IWL general funds represents an unpaid gift aid amount.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**SUMMARY OF FUNDS**

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
Designated funds	57,580	-	(57,580)	-	-
General funds	943,170	1,142,700	(1,020,499)	-	1,065,371
	<u>1,000,750</u>	<u>1,142,700</u>	<u>(1,078,079)</u>	<u>-</u>	<u>1,065,371</u>
Restricted funds	39,350	611,061	(650,411)	-	-
	<u>1,040,100</u>	<u>1,753,761</u>	<u>(1,728,490)</u>	<u>-</u>	<u>1,065,371</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 £72,796 (2013 - £57,649). As at 31 March 2014 £319 (2013 - £5,550) was outstanding.

**18. OPERATING LEASE COMMITMENTS**

At 31 March 2014 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2014	2013	2014	2013
	£	£	£	£
<b>GROUP AND COMPANY</b>				
<b>EXPIRY DATE:</b>				
Within 1 year	9,714	-	-	-
Between 2 and 5 years	-	58,281	1,068	1,068

**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 subscription 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.