

Registration No. 03426366 (England and Wales)  
Charity No. 1112398

**INTERNET WATCH FOUNDATION**

(a company limited by guarantee)

**TRUSTEES' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2016**

# INTERNET WATCH FOUNDATION

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# INTERNET WATCH FOUNDATION

## REFERENCE AND ADMINISTRATIVE DETAILS

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<b>CHARITY REGISTRATION NUMBER</b>	1112398
<b>COMPANY REGISTRATION NUMBER</b>	03426366
<b>TRUSTEES</b>	Sir R Tilt Miss S E Pillar Mr B W Webb Mr J E Shipp (term expired 30 April 2016) Dr U Kohl Prof J I Drori Mr P W Neyroud Mr P J Geering Ms M MacLeod (term expired 31 Dec 2015) Ms R Foreman Mr J D Lea Ms H A Dent
<b>CHIEF EXECUTIVE OFFICER</b>	Ms S E Hargreaves
<b>SENIOR MANAGEMENT PERSONNEL</b>	Ms S E Hargreaves Mr F Langford Ms H Kempster Ms E Hardy
<b>PRINCIPAL / REGISTERED OFFICE</b>	Discovery House Chivers Way Histon Cambridge CB24 9ZR
<b>INDEPENDENT AUDITORS</b>	Price Bailey LLP Chartered Accountants & Statutory Auditors Tennyson House Cambridge Business Park Cambridge CB4 0WZ
<b>BANKERS</b>	Barclays Bank Plc Mortlock House Vision Park Cambridge CB24 9DE
<b>INVESTMENT ADVISORS</b>	Schroder Investments Limited 31 Gresham Street London EC2V7QA

# **INTERNET WATCH FOUNDATION**

## **TRUSTEES' REPORT**

***FOR THE YEAR ENDED 31 MARCH 2016***

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The Trustees present their report and the audited financial statements of the charity for the year ended 31 March 2016. The trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" (FRS 102) in preparing the annual report and financial statements of the charity.

### **OBJECTIVES AND ACTIVITIES**

#### **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 use its expertise to work with partners to:

- Disrupt the availability of child sexual abuse content hosted anywhere in the world
- Protect children who are victims of sexual abuse from repeat victimisation and public identification
- Prevent internet users from accidentally stumbling across child sexual abuse content
- Delete criminally obscene adult, and non-photographic child sexual abuse content hosted in the UK.

To make the internet free of child sexual abuse images by:

- Providing world renowned and trusted Hotline services;
- Researching emerging technological solutions and trends to be used to target the disruption and removal of images;
- Developing innovative tactics and services to minimise the global availability of child sexual abuse images and videos;
- Researching, analysing and disseminating relevant trends data;
- Working with partners to speed up the removal and to minimise the availability of child sexual abuse imagery globally;
- Using our intelligence to actively seek out child sexual abuse content.

Keeping the UK internet free of criminally obscene adult content and non-photographic child abuse images by:

- Providing an excellent and responsive national Hotline reporting service;
- Working with partners to ensure criminal content in the UK is taken down.

#### **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.

#### **ACHIEVEMENTS AND PERFORMANCE**

From April 2014 the IWF was granted unique abilities to proactively seek out online images and videos of child sexual abuse. This resulted in a 417% increase in 2015 of reports of child sexual abuse imagery compared with 2013. Since 1996 IWF has assessed over 660,000 reports.

# INTERNET WATCH FOUNDATION

## TRUSTEES' REPORT (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

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### ACHIEVEMENTS AND PERFORMANCE (continued)

From August 2014 IWF analysts began playing an important role in building the Child Abuse Image Database (CAID), a national image database developed to help law enforcement, non-profits and the internet industry to tackle the production and distribution of criminal content.

During 2015 we played an active role in WePROTECT, the global initiative launched by -former Prime Minister David Cameron. This involved working on a number of projects and participating as a member of the International Advisory Board at the second global summit in Abu Dhabi in November.

In 2015 we developed a new service to industry. Our Image Hash list is a real game changer in the global fight against online child sexual abuse. In the last quarter of 2015 we started building our Hash list of images.

### 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 1330 URLs a day, and is updated twice a day.

During 2015, the Hotline team processed 112975 reports, of which 68543 were confirmed as containing criminal content covering all three areas of our wider remit, which is a 118% increase on the 2014 figure of 31443.

IWF works in partnership with the online industry, and issues takedown notices for the removal of child abuse content hosted in the UK. 38% of webpages were removed on 60 minutes or less. 59% of webpages were removed in 120 minutes or less.

Types of content

	2015	2014
% of children appearing to be 10 years or under	69	80
% of children appearing to be 2 years or under	3	4
% showing sexual activity between adults and children including rape or sexual torture	34	43
% of images where victims are girls	85	83
% of images where victims are boys	9	10
% of images with both genders	5	7

### FINANCIAL REVIEW

#### RESERVES AND INVESTMENTS POLICY

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

# **INTERNET WATCH FOUNDATION TRUSTEES' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2016**

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## **RESERVES AND INVESTMENTS POLICY (continued)**

- 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 2015/16 for IWF and IWL was healthy. There was an increase in income this year due to the full year affect of the membership funding review. This has enabled the reserves to be increased, and this additional amount be used to continue the planned expansion and restructuring of the hotline. At the end of 2015/16 the IWF had 122 members.

## **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.

## **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.

## **STRATEGIC PROGRAMME PLANS FOR THE FUTURE**

The most significant development for IWF in 2016/17 will be official launch of the hash list.

We will also see the official launch of the IWF global reporting portals in 11 British Overseas territories, and continue to build on this success in other countries around the world.

We continue our proactive work, started on 1 April 2014, and will continue to build on the huge increase in reports we are able to process compared to previous years. We continue to develop the work of IWF through the Board approved strategic plan.

## **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, 23 September 2008 and 5 October 2010.

# **INTERNET WATCH FOUNDATION TRUSTEES' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2016**

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## **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 management of the organisation to the Chief Executive.

## **REMUNERATION OF KEY MANAGEMENT PERSONNEL**

The key management personnel consist of the trustees, the Chief Executive Officer, the deputy Chief Executive Officer, the Director of Business affairs and the Director of External Relations. The Board undertook a review of salaries of key management personnel during the year, drawing upon market data available for the charity sector, and will continue to monitor and review salaries of key management on an annual basis.

Section 6 of the Memorandum of Association of Internet Watch Foundation permits payments to a maximum of 3 trustees attending each board meeting. During the year, a total of 2 (2015: 3) trustees were paid in respect of their duties, and the Chair was also remunerated for his role, further details can be found in note 9 of these accounts..

# INTERNET WATCH FOUNDATION

## TRUSTEES' REPORT (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

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### 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 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 and the welfare program continues to work 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.

### STATEMENT OF TRUSTEES RESPONSIBILITIES

The trustees (who are also directors of Internet Watch Foundation) for the purposes of company law) are responsible for preparing the Trustees' Annual Report (including the Strategic 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, which give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company 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 2015 (FRS 102);
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in operation.



# INTERNET WATCH FOUNDATION

## TRUSTEES' REPORT (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

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The trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company 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 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### AUDITORS

In so far as the trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The board recommend to the AGM the Price Bailey LLP should continue to be engaged as auditors for the forthcoming financial year.

This report, which has 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.

This report was approved by the Board on

11/10/16

and signed on its behalf by:

R.R. Tilt

.....  
**Sir R Tilt**

# 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 2016 which comprise the Consolidated Statement of Financial Activities (incorporating an Income and Expenditure Account), the Consolidated and Charity Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of trustees and auditor**

As explained more fully in the Trustees' Responsibilities Statement set out in the Trustees' Report, 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 auditor under the Companies Act 2006 and report in accordance with this Act. 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 charitable 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' Annual 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 2016, 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 and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

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

## 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 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.
- 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 directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report



**Helena Wilkinson BSc FCA DChA (Senior Statutory Auditor)**

for and on behalf of  
**PRICE BAILEY LLP**

Chartered Accountants  
Statutory Auditors

Tennyson House  
Cambridge Business Park  
Cambridge  
CB4 0WZ

Date: 31 Oct 2016

# INTERNET WATCH FOUNDATION

## CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES (INCLUDING INCOME AND EXPENDITURE ACCOUNT)

FOR THE YEAR ENDED 31 MARCH 2016

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	Note	Unrestricted £	Restricted £	2016 Total £	2015 Total £
<b>INCOME</b>					
Donations	2	11,040	-	11,040	35,191
Charitable activities	3	2,162,980	703,100	2,866,080	2,233,125
Other trading activities	4	5,287	-	5,287	-
Investment income	5	2,949	-	2,949	4,489
<b>Total income</b>		<b>2,182,256</b>	<b>703,100</b>	<b>2,885,356</b>	<b>2,272,805</b>
<b>EXPENDITURE</b>					
Charitable activities	6	(1,285,835)	(1,003,125)	(2,288,960)	(2,151,886)
<b>Total expenditure</b>		<b>(1,285,835)</b>	<b>(1,003,125)</b>	<b>(2,288,960)</b>	<b>(2,151,886)</b>
<b>Net income / (expenditure) in the year</b>		<b>896,421</b>	<b>(300,025)</b>	<b>596,396</b>	<b>120,919</b>
<b>Transfers between funds</b>	18a	<b>(300,025)</b>	<b>300,025</b>	-	-
<b>Net movement in funds</b>		<b>596,396</b>	-	<b>596,396</b>	<b>120,919</b>
<b>Reconciliation of funds:</b>					
Total funds brought forward	18b	1,186,290	-	1,186,290	1,065,371
<b>Total funds carried forward</b>	18a	<b>1,782,686</b>	-	<b>1,782,686</b>	<b>1,186,290</b>

All amounts relate to continuing activities of the company.

The Statement of Financial Activities includes all gains and losses recognised in the year.

The notes to the accounts are shown on pages 14 to 25.

# INTERNET WATCH FOUNDATION

REGISTERED COMPANY NUMBER: 03426366

## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2016

	Notes	2016 £	2015 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	13a	165,283	233,300
<b>TOTAL FIXED ASSETS</b>		<b>165,283</b>	<b>233,300</b>
<b>CURRENT ASSETS</b>			
Debtors	15	922,809	523,406
Investments – cash deposits		764,538	761,754
Cash at bank and in hand		1,203,261	414,976
<b>TOTAL CURRENT ASSETS</b>		<b>2,890,608</b>	<b>1,900,280</b>
<b>LIABILITIES</b>			
Creditors: amounts falling due within one year	16	(1,273,205)	(947,290)
<b>NET CURRENT LIABILITIES</b>		<b>1,617,403</b>	<b>952,990</b>
<b>TOTAL NET ASSETS</b>		<b>1,782,686</b>	<b>1,186,290</b>
<b>FUNDS OF THE CHARITY:</b>			
Unrestricted funds:			
General funds	18	1,782,686	1,186,290
<b>TOTAL FUNDS</b>		<b>1,782,686</b>	<b>1,186,290</b>

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The attached notes on pages 14 to 25 form part of these financial statements.

The financial statements were approved by the Board of Trustees on 11/16/16 and signed on their behalf by:

R.R. Tux

# INTERNET WATCH FOUNDATION

REGISTERED COMPANY NUMBER: 03426366

## COMPANY BALANCE SHEET AS AT 31 MARCH 2016

	Notes	2016 £	2015 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	13b	165,283	233,300
Investments	14	2	2
<b>TOTAL FIXED ASSETS</b>		<b>165,285</b>	<b>233,302</b>
<b>CURRENT ASSETS</b>			
Debtors	15	922,809	555,022
Investments		764,538	761,754
Cash at bank and in hand		1,072,958	414,946
<b>TOTAL CURRENT ASSETS</b>		<b>2,760,305</b>	<b>1,731,722</b>
<b>LIABILITIES</b>			
Creditors: amounts falling due within one year	16	(1,276,841)	(912,672)
<b>NET CURRENT LIABILITIES</b>		<b>1,483,464</b>	<b>819,050</b>
<b>TOTAL NET ASSETS</b>		<b>1,648,749</b>	<b>1,052,352</b>
<b>FUNDS OF THE CHARITY:</b>			
Unrestricted funds:			
General funds	18	1,648,749	1,052,352
<b>TOTAL FUNDS</b>		<b>1,648,749</b>	<b>1,052,352</b>

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The attached notes on pages 14 to 25 form part of these financial statements.

The financial statements were approved by the Board of Trustees on 11/03/16  
and signed on their behalf by:

R.R. Tur

# INTERNET WATCH FOUNDATION

REGISTERED COMPANY NUMBER: 03426366

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

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	Notes	2016 £	2015 £
<b>Cash Flows from Operating Activities</b>			
Net cash provided by/used in operating activities	20	593,847	349,248
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment		<u>(2,922)</u>	<u>(276,624)</u>
<b>Change in cash and cash equivalents in the reporting period</b>		<u>590,925</u>	<u>72,624</u>
Cash and cash equivalents at the beginning of the reporting period		<u>1,376,874</u>	<u>1,304,250</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	21	<u><u>1,967,799</u></u>	<u><u>1,376,874</u></u>

The attached notes on pages 14 to 25 form part of these financial statements.

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016

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#### 1 Accounting policies

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

##### a) Basis of preparation and consolidation

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

The financial statements are prepared on a going concern basis and are presented in sterling, which is the functional currency of the charity.

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.

The charity meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

##### b) Going Concern

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.

##### c) Reconciliation with previous Generally Accepted Accounting Practice

In preparing these accounts, the Trustees have considered whether in applying the accounting policies required by FRS 102 and the Charities SORP FRS 102 if the restatement of comparative items was required. The date of transition was 29 November 2013. No such restatement was necessary other than the reclassification of governance costs as support costs in the prior year.

##### d) Legal status of the Charity

There is no share capital as the company is limited by guarantee. Each member has guaranteed an amount, not exceeding £1, towards the company's liabilities in the event of a winding up, provided that a member has not ceased to be a member one year prior to any winding up order.

##### e) Fund accounting

Unrestricted funds are available for use at the discretion of the trustees in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost 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.



# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

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### f) Income

Income is recognised when the charity has entitlement to the funds, any performance conditions attached to the items of income have been met, it is probable that the income will be received and the amount can be measured reliably.

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. Donated facilities and donated professional services are recognised in income at their fair value when their economic benefit is probable, it can be measured reliably and the charity has control over the item. Fair value is determined on the basis of the value of the gift to the charity. For example the amount the charity would be willing to pay in the open market for such facilities and services. A corresponding amount is recognised in expenditure.

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

Income from trading activities includes income earned from activities to raise funds for the charity. Income is received in exchange for supplying goods and services in order to raise funds and is recognised when entitlement has occurred.

The charity receives government grants in order to pursue its charitable objects and minimise criminal content on the internet. Income from government and other grants are recognised at fair value when the charity has entitlement after any performance conditions have been met, it is probable that the income will be received and the amount can be measured reliably. If entitlement is not met then these amounts are deferred.

### g) Expenditure

Expenditure is recognised once there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably. All expenditure is accounted for on an accruals basis.

Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

### h) Tangible fixed assets and depreciation

All assets costing more than £500 are capitalised at their historical cost when purchased.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated off the cost on a straight line basis over their expected useful economic lives as follows:

Leasehold improvements	over the life of the lease
Office equipment	33.33% straight line
Computer equipment	33.33%-40% straight line

Assets are reviewed for any indications of impairment at each balance sheet date.

### i) Investments

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

## INTERNET WATCH FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

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**j) Debtors**

Trade and other debtors are recognised at the settlement amount due after any trade discount offered. Prepayments are valued at the amount prepaid net of any trade discounts due. Accrued income and tax recoverable is included at the best estimate of the amounts receivable at the balance sheet date.

**k) Cash at bank and In hand**

Cash at bank and cash in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar account.

**l) Creditors**

Creditors are recognised where the charity has a present obligation resulting from a past event that will probably result in the transfer of funds to a third party and the amount due to settle the obligation can be

measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any trade discounts due. Concessionary loans received at below market rates are received in order to further the charitable objects of the organisation and are therefore included at the amount received and are not discounted.

**m) Financial instruments**

The charity only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value. Fixed assets are recorded at depreciated historical cost and all other assets and liabilities are recorded at cost which is their fair value.

**n) Pensions**

Employees of the charity are entitled to join a defined contribution pension scheme. The charity contribution is restricted to the contributions disclosed in note 10.

**o) Operating leases**

Operating leases are recognised over the period of which the lease falls due.

**p) 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.

**q) Taxation**

The company is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the company is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 2 Donations

	2016 £	2015 £
Donations	4,280	12,782
Gifts in kind	6,760	22,409
	<u>11,040</u>	<u>35,191</u>

All donations received in 2016 and 2015 relate to unrestricted funds.

### 3 Income from Charitable Activities

	2016 £	2015 £
Subscription fee income	2,112,595	1,630,903
EU grant income	403,200	217,521
FCO income	49,900	-
IWL income	26,235	121,020
International services	15,000	5,000
Miscellaneous income	9,150	8,681
Google grant income	250,000	250,000
	<u>2,866,080</u>	<u>2,233,125</u>

Income from charitable activities was £2,866,080 (2015 - £2,233,125) of which £703,100 (2015 - £467,521) was attributable to restricted and £2,162,980 (2015 - £1,765,604) was attributable to unrestricted funds.

Details of government grants received during they ear are included within note 18.

### 4 Other trading activities

	2016 £	2015 £
Car park rent	5,046	-
Other	241	-
	<u>5,287</u>	<u>-</u>

All trading income received in 2016 relates to unrestricted funds.

### 5 Investment Income

	2016 £	2015 £
Bank interest	2,949	4,489
	<u>2,949</u>	<u>4,489</u>

All investment income received in 2016 and 2015 relate to unrestricted funds.

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 6a Analysis of resources expended by activity

	Direct Costs £	Support costs £	2016 costs £
<b>Charitable activities:</b>			
Minimise criminal internet content	1,503,696	785,264	2,288,960
	<u>1,503,696</u>	<u>785,264</u>	<u>2,288,960</u>

### 6b Analysis of resources expended by activity

	Direct Costs £	Support costs £	2015 costs £
<b>Charitable activities:</b>			
Minimise criminal internet content	1,391,818	760,068	2,151,886
	<u>1,391,818</u>	<u>760,068</u>	<u>2,151,886</u>

Expenditure on charitable activities includes £1,285,835 (2015: £1,549,683) spent from unrestricted funds and £1,003,125 (2015: £602,203) spent from restricted funds.

### 7 Analysis of support costs

	2016 £	2015 £
Finance and legal	22,685	58,975
Human resources	375,619	314,269
IT	69,623	104,481
Premises	143,872	138,530
General office costs	93,970	95,648
Other	4,482	5,159
Governance (note 8)	75,013	43,006
	<u>785,264</u>	<u>760,068</u>

All expenditure on support costs is spent from unrestricted funds in 2016 and 2015.

### 8 Analysis of governance costs

	2016 £	2015 £
Audit fees	6,890	4,475
Accountancy fees paid to auditor	1,450	1,360
Cost of Trustees' meetings	22,395	17,128
Funding Council Secretariat costs	-	(1,800)
Chairs fees	21,948	21,648
Trustee recruitment and training	22,330	195
	<u>75,013</u>	<u>43,006</u>

All expenditure on governance costs is spent from unrestricted funds in 2016 and 2015.

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 9 Analysis of staff costs and key management personnel

	2016 £	2015 £
Wages and salaries	1,079,041	1,007,296
Social security costs	115,913	103,864
Pension	126,648	102,103
	<u>1,321,602</u>	<u>1,213,263</u>

The Chair received £21,948 (2015: £21,648) during the year in respect of his duties in 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 3 trustees attending each board meeting. During the year, a total of 2 (2015: 3) trustees were paid in respect of their duties and these amounted to a total of £6,535 (2015: £6,547).

In 2016, 5 trustees (2015 – 5) received reimbursements of expenses amounting to £12,753 (2015: £8,762) for travel and subsistence.

The charity considers its key management personnel to comprise of 4 people being the CEO and the senior leadership team. During the year, the total employment benefits of these 4 (2015: 4) key management personnel was £326,898 (2015: £329,584).

The average monthly head count was as follows:

	2016 Number	2015 Number
Charitable activities	<u>30</u>	<u>28</u>

The number of employees whose total employee benefits excluding pension contributions earning over £60,000, classified within bands of £10,000 is as follows:

	2016 Number	2015 Number
£ 60,000 - £ 70,000	1	-
£ 70,001 - £ 80,000	-	-
£ 80,001 - £ 90,000	1	1
£100,001 - £110,000	1	1
	<u>3</u>	<u>2</u>

Total employer pension contributions during the year for the staff in the above bandings were £16,725 (2015: £12,775).

**INTERNET WATCH FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2016**

**10 Pension costs**

The charity operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the charitable company in an independently administered fund. Contributions payable by Internet Watch Foundation amounted to £126,648 (2015: £102,103). There were no outstanding contributions payable to the pension fund at the balance sheet date (2015: £9,383).

**11 Net incoming resources**

	2016 £	2015 £
Net incoming resources is stated after charging:		
Depreciation of charitable assets owned by group	70,942	70,553
Auditors remuneration:		
- for audit services	6,890	4,475
- for non-audit services	1,450	1,360
	<u>79,282</u>	<u>77,288</u>

Included in the amounts above are fees of £1,290 payable to the previous auditor in relation to audit fees (2015: £4,475 audit fees and £1,360 non audit fees).

**12 Taxation**

The company is a registered charity and as such is exempt from taxation on its income and gains falling with section 505 of the Taxes Act 1988 or section 252 of the Taxation of Chargeable Gains Act 1992 to the extent that these are applied for charitable purposes.

**13a Tangible fixed assets - group**

	improvements £	Leasehold equipment £	Office equipment £	Computer Total £
Cost or valuation:				
At 31 March 2015	248,480	20,524	157,001	426,005
Additions	2,377	-	547	2,924
At 31 March 2016	<u>250,857</u>	<u>20,524</u>	<u>157,548</u>	<u>428,929</u>
Depreciation:				
At 31 March 2015	49,696	20,116	122,893	192,705
Charge for the year	50,290	408	20,243	70,941
At 31 March 2016	<u>99,986</u>	<u>20,524</u>	<u>143,136</u>	<u>263,646</u>
Net book value:				
At 31 March 2015	<u>198,784</u>	<u>408</u>	<u>34,108</u>	<u>233,300</u>
At 31 March 2016	<u>150,871</u>	<u>-</u>	<u>14,412</u>	<u>165,283</u>

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 13b Tangible fixed assets - charity

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
Cost or valuation:				
At 31 March 2015	248,480	16,092	157,001	421,573
Additions	2,377	-	547	2,924
At 31 March 2016	250,857	16,092	157,548	424,497
Depreciation:				
At 31 March 2015	49,696	15,684	122,893	188,273
Charge for the year	50,290	408	20,243	70,941
At 31 March 2016	99,986	16,092	143,136	259,214
Net book value:				
At 31 March 2015	198,784	408	34,108	233,300
At 31 March 2016	150,871	-	14,412	165,283

### 14 Investment in Trading Subsidiary

Internet Watch Limited is incorporated in England and Wales, company number 03257438, and is a wholly owned subsidiary of Internet Watch Foundation. During the year the subsidiary company transferred its trade and assets to the parent, and the bank account was closed after the year end. The principal activity of the subsidiary is to undertake trading activities on behalf of Internet Watch Foundation, its parent charity and these activities were considered to be compatible with the aims and charitable objectives of Internet Watch Foundation.

Within the charitable company balance sheet, the investment in the subsidiary is held at a cost of £2 (2015: £2), being 2 ordinary shares of £1 each.

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

Profit and Loss Account	2016 £	2015 £
Turnover	26,664	121,020
Administrative expenses	(25,336)	(40,351)
Operating profit	1,328	80,669
Interest receivable	100	484
Interest payable	-	(770)
Deed of covenant payable to the charity	(1,428)	(80,383)
Profit for the year	-	-

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 14 Investment in Trading Subsidiary (continued)

#### Balance Sheet

Current assets	133,938	207,281
Current liabilities	-	(73,343)
Net assets	<u>133,938</u>	<u>133,938</u>

### 15 Debtors

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Trade debtors	359,022	249,493	359,022	242,386
Amounts owed by group undertakings	-	-	-	38,723
Other debtors	102,748	101,813	102,748	101,813
VAT repayable	-	1,080	-	1,080
Prepayments and accrued income	461,039	171,020	461,039	171,020
	<u>922,809</u>	<u>523,406</u>	<u>922,809</u>	<u>555,022</u>

### 16 Creditors: amounts falling due within one year

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Trade debtors	107,763	39,149	107,763	34,153
Amounts owed by group undertakings	-	-	3,636	-
Other debtors	71,821	29,758	71,821	29,758
Other creditors	9,162	-	9,162	82,127
Accruals and deferred income	1,084,459	878,383	1,084,459	766,634
	<u>1,273,205</u>	<u>947,290</u>	<u>1,276,841</u>	<u>912,672</u>

#### Deferred income – current year

	Group £	Company £
Deferred income at 1 April 2015	793,298	766,634
Resources deferred during the year	1,021,494	1,021,494
Amounts released from previous years	(793,298)	(766,634)
Deferred income at 31 March 2016	<u>1,021,494</u>	<u>1,021,494</u>



# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### Deferred income – prior year

	Group £	Company £
Deferred income at 1 April 2014	315,541	298,875
Resources deferred during the year	793,298	766,634
Amounts released from previous years	(315,541)	(298,875)
Deferred income at 31 March 2015	<u>793,298</u>	<u>766,634</u>

Deferred income relates to subscriptions, license fees and car park rentals.

### 17 Leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings			Other
	2016	2015	2016	2015
	£	£	£	£
No later than one year	203,625	203,625	2,588	3,388
Later than one year and not later than five years	424,219	627,844	12,940	-
	<u>627,844</u>	<u>831,469</u>	<u>15,528</u>	<u>3,388</u>

### 18 a Funds analysis – current year

	Balance at 1/4/2015 £	Income £	Expenditure £	Transfers £	Balance at 31/3/16 £
<b>Unrestricted funds</b>					
General funds	1,052,352	2,155,592	(1,259,071)	(300,025)	1,648,848
Subsidiary	133,938	26,664	(26,764)	-	133,838
<b>Total unrestricted funds</b>	<u>1,186,290</u>	<u>2,182,256</u>	<u>(1,285,835)</u>	<u>(300,025)</u>	<u>1,782,686</u>
<b>Restricted funds</b>					
EU SC III Grant	-	403,200	(703,225)	300,025	-
FCO Grant	-	49,900	(49,900)	-	-
Google donation	-	250,000	(250,000)	-	-
<b>Total unrestricted funds</b>	<u>-</u>	<u>703,100</u>	<u>(1,003,125)</u>	<u>300,025</u>	<u>-</u>
<b>Total funds</b>	<u>1,186,290</u>	<u>2,885,356</u>	<u>(2,288,960)</u>	<u>-</u>	<u>1,782,686</u>

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 18b Funds analysis – prior year

	Balance at 1/4/2013 £	Income £	Expenditure £	Transfers £	Balance at 31/3/14 £
<b>Unrestricted funds</b>					
General funds	931,433	1,638,780	(1,428,179)	(134,862)	1,052,352
Subsidiary	133,938	121,504	(121,504)	-	133,938
<b>Total unrestricted funds</b>	<b>1,065,371</b>	<b>1,805,284</b>	<b>(1,549,683)</b>	<b>(134,682)</b>	<b>1,186,920</b>
<b>Restricted funds</b>					
EU SC III Grant	-	115,701	(250,383)	134,682	-
FCO Grant	-	101,820	(101,820)	-	-
Google donation	-	250,000	(250,000)	-	-
<b>Total unrestricted funds</b>	<b>-</b>	<b>467,521</b>	<b>(602,203)</b>	<b>134,682</b>	<b>-</b>
<b>Total funds</b>	<b>1,065,371</b>	<b>2,272,805</b>	<b>(2,151,886)</b>	<b>-</b>	<b>1,186,290</b>

EU SCIII Grant – These funds represent a grant from the European Union in respect of assistance in meeting the costs of running the Hotline. A transfer was made from unrestricted funds to ensure that the EU SIC III grant fund does not go into deficit. The project completed on 30 June 2016. There are no unfulfilled conditions or contingencies relating to amounts recognised during the year.

FCO Grant – These funds were received from the Foreign Commonwealth Office to assist with the cost of implementing international portals. The project completed on 31 March 2016. There are no unfulfilled conditions or contingencies relating to amounts recognised during the year.

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

### Net assets by funds

	Unrestricted Funds 2016 £	Unrestricted Funds 2015 £
<b>General fund:</b>		
Tangible fixed assets	165,283	233,300
Current assets	2,890,608	1,900,280
Creditors falling due in less than one year	(1,273,205)	(947,290)
	<u>1,782,686</u>	<u>1,186,290</u>

# INTERNET WATCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

### 19 Related party transactions

Internet Watch Foundation 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 Internet Watch Foundation with subscription levels ranging from £1,000 to in excess of £75,000.

Internet Watch Limited, the wholly owned subsidiary company, paid a management charge of £20,854 (2015: £26,796) a licence fee of £nil (2015: £1,250) and a gift aid payment of £1,428 (2015: £80,383) during the year. As at the year end a balance of £3,635 was due to the parent company (2015: £38,723 due to the subsidiary). During the year, the subsidiary's trade was transferred to the parent company and shortly after the year end, all cash and net assets were transferred from the subsidiary to Internet Watch Foundation.

### 20 Reconciliation of net expenditure to net cash flow from operating activities

	2016 £	2015 £
<b>Net income for the reporting period (as per the statement of financial activities)</b>	<b>596,396</b>	<b>120,919</b>
<b>Adjustments for:</b>		
Depreciation charges	70,942	70,553
(Increase)/decrease in debtors	(399,403)	(330,626)
Increase/(decrease) in creditors	325,915	488,402
<b>Net cash provided by/(used in) operating activities</b>	<b>593,847</b>	<b>349,248</b>

### 21 Analysis of cash and cash equivalents

	2016 £	2015 £
Cash in hand	1,203,261	615,120
Investments – short term deposits	764,538	761,754
<b>Total cash and cash equivalents</b>	<b>1,967,799</b>	<b>1,376,874</b>