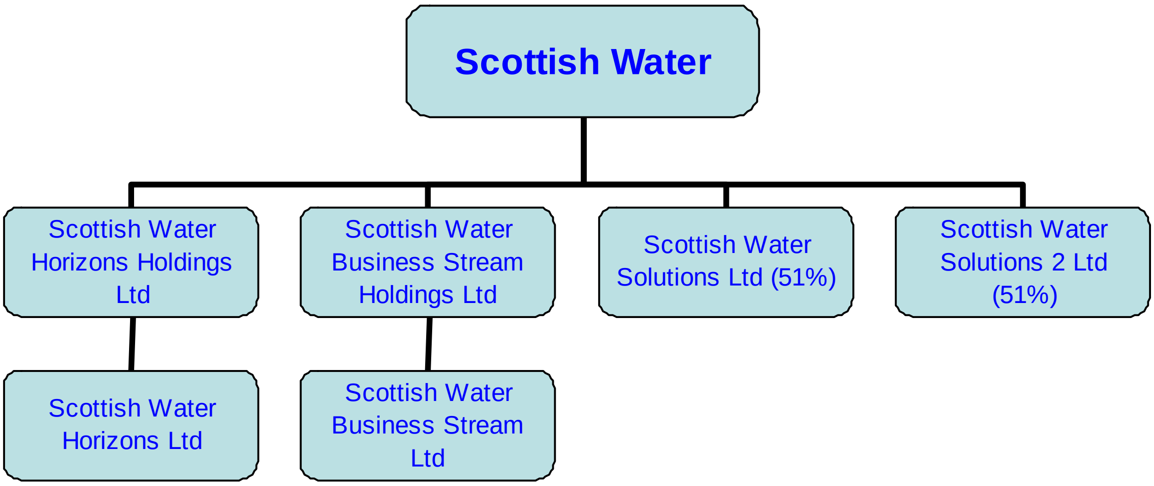
Financial and Business Review

Group Overview

Our vision is to become Scotland's most valued and trusted business, one that we can all be proud of. Consequently, the overarching strategy for the Scottish Water group of businesses is to provide levels of service and value for money which exceed the expectations of customers, regulators and the Scottish Government whilst ensuring our financial strength across all parts of the Scottish Water group.

The Scottish Water group structure is summarised below:



The three main trading businesses of the Scottish Water group are Scottish Water, that supplies households and wholesale licensed providers with regulated water and waste water services, Scottish Water Business Stream Ltd (Business Stream), our licensed retail subsidiary which supplies water and waste water services to business customers, and Scottish Water Horizons Ltd (Horizons) that provides non regulated services to customers. Business Stream is operated and managed independently of Scottish Water in accordance with the Governance Code, which sets out the terms of separation to enable the operation of the licensed retail market for business customers.

The following table summarises turnover, surplus before tax and exceptional items, net assets and net debt, as at 31 March 2011, for the Scottish Water group of businesses.

Group Financial Summary as at 31 March 2011

	Scottish Water £m	Business Stream group £m	Horizons group £m	Inter company* £m	Total £m
Income	1,051.9	358.2	17.6	(300.6)	1,127.1
Surplus before exceptional items and tax	117.2	23.4	0.5	5.1	146.2
Net assets	3,915.6	143.2	5.8	(46.4)	4,018.2
Net debt/(net cash)	2,867.0	(23.8)	(4.8)		2,838.4

* Inter-company adjustments relate to the elimination of inter-company turnover and profit between Scottish Water and Business Stream.

The group surplus before exceptional items and tax for the year to 31 March 2011 was £146.2 million (2010: £145.3 million). Consolidated turnover in the year increased by £3.0 million to £1,127.1 million (2010: £1,124.1 million) and net finance costs were £8.2 million lower. These benefits were offset by increased costs of £10.3 million which were impacted by the extreme weather events experienced during the latter part of the year and an increase in local authority rates charges of £21.4 million.

In the year consolidated net debt reduced by £14.9 million to £2,838.4 million (2010: £2,853.3 million). The reduction was driven by a £120.9 million increase in cash balances partially offset by an increase in borrowings from the Scottish Government of £106.0 million.

Individual business performance is reviewed below.

Exceptional item

With effect from 1 April 2010, following the announcement made on 22 June 2010 as part of the Emergency Budget, increases to Local Government Pension Scheme benefits in accordance with the Pensions (Increase) Act 1971 are now based on the Consumer Price Index (CPI) and will no longer be related to the Retail Price Index (RPI). This change has reduced Pension Scheme liabilities and reduced past service costs by £83.0 million before deferred tax. Due to its nature, this has been classified as an exceptional item in the consolidated Income Statement and details are provided in Note 4 to the financial statements.

Taxation

The consolidated tax charge on the income statement was £45.2 million, (2010: £37.7 million). During the year, as a result of the change in the UK corporation tax rate from 28% to 26% that will be effective from April 2011, deferred tax balances have been re-measured. Consequently, the effective rate for the year was 19.7%, (2010: 25.9%) in respect of deferred taxation.

Borrowing Limit

Scottish Ministers set Scottish Water's (consolidated) maximum net new borrowing limit at £106.0 million for 2010/11. Actual net new borrowings in 2010/11 were £106.0 million.

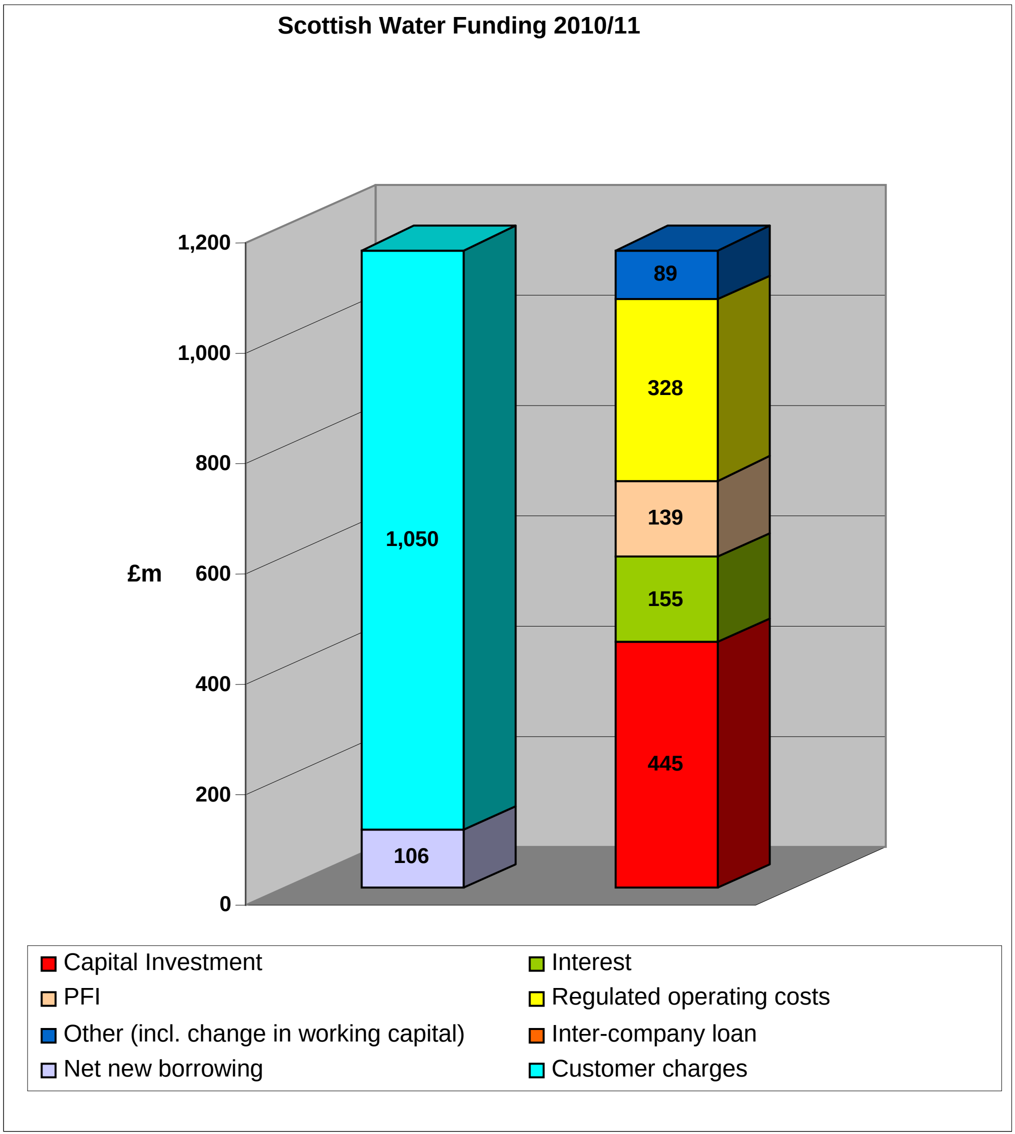
Scottish Water

Financial Framework
Scottish Water is subject to incentive-based regulation by the Water Industry Commission for Scotland (the Commission).

The Commission carries out five year price reviews and caps the prices that Scottish Water charge for water and wastewater services. The combination of regulated price caps and firm constraints on borrowing from the Scottish Government creates a clearly defined limit on the financing available to Scottish Water.

Within this financial framework Scottish Water has an agreed Delivery Plan with Scottish Ministers that sets out Scottish Water's planned level of investment to deliver the required improvements and the expenditure to run its operation. Scottish Water's aim is to out-perform the targets set out in the Delivery Plan and thereby out-perform the regulatory contract.

Financial Performance
The surplus before exceptional items and tax in the year for Scottish Water was £117.2 million (2010: £130.5 million). The surplus made by Scottish Water on core service provision is required to finance our capital investment programme as is demonstrated in the chart below:



Regulated revenue

Regulated revenue for the year totalled £1,049.8 million (2010: £1,066.2 million) and is analysed by category in the table below:

	2010/11	2009/10	Change
	£m	£m	£m
Household	743.5	737.4	6.1
Wholesale	302.4	324.6	(22.2)
Other	3.9	4.2	(0.3)
Total regulated revenue	**1049.8**	**1066.2**	**(16.4)**

Revenue from services supplied to household customers increased by £6.1 million or 0.8% to £743.5 million reflecting the increase in connected properties and the tariff freeze effective from 1 April 2010. Revenue from wholesale services supplied to Licensed Providers reduced by £22.2 million or 6.8% to £302.4 million driven primarily by the reduction in regulated wholesale charges to Licensed Providers. Revenue from other sales reduced by £0.3 million to £3.9 million.

Operating costs

Total operating costs excluding exceptional items increased by £2.6 million to £743.9m (2010: £741.3 million).

Although headline regulated operating costs of £327.8 million (2010: £301.9 million) were 8.6% or £25.9 million higher than in 2009/10, this increase was due primarily to increased local authority rates charges of £21.4 million, increased extreme winter weather costs of £3.8 million and increased restructuring costs of £4.0 million. After adjusting for these specific cost increases and the impact of inflation, like-for-like costs reduced in real terms by £8.1 million or 3.2%.

The operating cost of the PFI schemes in the year, including associated depreciation and amortisation charges, was £113.8 million, £2.9 million higher than in 2009/10.

Depreciation and infrastructure maintenance costs reduced by £28.9 million to £298.0 million (2010: £326.9 million). Infrastructure maintenance costs were £46.2 million lower than last year. This reflects the phasing of the planned maintenance investment programme for infrastructure assets of the 2010-15 regulatory period. This reduction was offset by a 9% (£17.3 million) increase in depreciation charges associated with non-infrastructure assets as a consequence of the capital investment programme.

Capital Investment

Reported capital investment under IFRS for Scottish Water in the year was £367.6 million (2010: £443.5 million). However capital investment, as measured on a regulatory accounting basis, was £443.4 million (2010: £648.3 million). The table below reconciles investment as stated in the statutory accounts with investment on a regulatory accounting basis.

Reconciliation of capital additions	2011 £m	2010 £m
Company capital additions per note 9 to the financial statements	**367.6**	**443.5**
Add back base infrastructure maintenance included in operating costs under IAS 16	77.6	166.0
Add investment financed by infrastructure charges income & other contributions	6.4	43.6
Deduct PFI capital additions	(8.2)	(4.8)
Gross capital additions on a regulatory accounting basis	**443.4**	**648.3**

Finance costs

As at 31 March 2011, the weighted average interest cost of the £3,119.3 million outstanding debt was 5.15% (2010: 5.20%). Net interest payable during the year was £155.4 million, £0.1 million higher than in 2009/10.

Finance costs associated with finance lease liabilities on PFI assets and the interest on pension scheme liabilities less the expected return on pension scheme assets, reduced by £8.4 million to £35.4 million (2010: £43.8 million) reflecting higher than expected returns on pension scheme assets.

During the year, net debt increased by £7.2 million to £2,867.0 million (being loans of £3,119.3 million less cash balances of £252.3 million). The increase was driven by a £106.0 million increase in borrowing from the Scottish Government off-set by a £98.8 million increase in cash balances.

Group Pension arrangements

Scottish Water is a participating employer in three Local Government Pension Schemes (LGPS) - Strathclyde Pension Fund, the North East Scotland Pension Fund and the Lothian Pension Fund. These funds are administered by Glasgow City Council, Aberdeen City Council and Edinburgh City Council respectively. Business Stream is a participating employer in the Strathclyde Pension Fund.

The administering authority for each scheme is required to conduct a triennial valuation of the assets and liabilities of the scheme in line with LGPS regulations. This must be conducted by a qualified actuary. The purpose of the valuation is to review the financial position of the fund and specify the employer contribution rates for the next 3 year period. The last valuation was carried out as at 31 March 2008. The actuarial funding position at 31 March 2008 of the Group's share of each pension fund is shown in the table below.

Fund	Value of assets £m	Total Accrued Liabilities £m	Deficit £m	Funding Level %
Strathclyde	361.6	365.7	4.1	99%
North East Scotland	197.2	220.3	23.1	90%
Lothian	214.3	256.1	41.8	84%

From 1 April 2009, under Regulation 4(2) (b) of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulation 2008, employee pension contributions are determined according to the level of an employee's full time equivalent pensionable pay. A key feature of the pension arrangements is that contribution rates are applied in tiers ranging from 5.5% to 12% depending on the employee's rate of pensionable pay on 31 March. It is anticipated that this new approach to employees' contribution rates will ultimately result in a 2:1 ratio between Scottish Water's contributions and employees' contributions in a fully funded scheme.

Under IAS 19, *Employee Benefits,* a snapshot is taken of pension fund assets and liabilities at a specific point in time. Movements in equity markets and discount rates create volatility in the calculation of scheme assets and liabilities. At 31 March 2011, after taking account of deferred taxation, there was a shortfall of assets over respective liabilities of £210.2 million (2010: £333.2 million). This was a decrease in the net pension liability of £123.0 million from 31 March 2010. This was primarily as a result of a £107.5 million reduction in the present value of scheme liabilities, which was driven mainly by the fact that future pension increases will now follow the Consumer Price Index (CPI) and will no longer be related to the Retail Price Index (RPI).

Members' report
For the year ended 31 March 2011

The Members present their annual report together with the audited financial statements for the year ended 31 March 2011.

Accounting requirements
The financial statements have been prepared in a form directed by Scottish Ministers in accordance with section 45(2) of the Water Industry (Scotland) Act 2002.

Principal activities
Scottish Water group principal activities during the year were the supply of water and waste water services to around 5 million customers in homes and businesses across Scotland covering an area of 30,410 square miles.

Scottish Water Business Stream Ltd (Business Stream), our licensed retail subsidiary, supplies water and waste water services to business customers in the competitive retail market within Scotland which opened to competition on 1 April 2008. Business Stream is operationally independent of Scottish Water, as required under the Governance Code agreed with the Water Industry Commission for Scotland. Its Board has two independent non-executive directors who have no other association with the Scottish Water group.

Scottish Water Horizons Ltd (SWH) is a commercial business enterprise which provides waste management, contracting and other business services.

A review of the business and future developments for Scottish Water are presented in the Chair's Statement on page 2 and in the Financial and Business Review on pages 16 to 21.

Members
The Chair and other Non-executive Members are appointed by Scottish Ministers. Executive Members are appointed by Scottish Water after receiving consent to their appointment from Scottish Ministers. The Members as at the date of the Annual Report and their biographies are set out on pages 22 to 23.

Members and their interests
All Members have declared that they had no material interests in any contracts awarded during the year by Scottish Water. A register of Members' interests is maintained at Scottish Water's head office and is open for inspection during normal office hours.

Results
The surplus for the year after taxation amounted to £184.0 million. Details of the financial results and associated accounting policies are set out on pages 36 to 69.

Research and development
To ensure that Scottish Water derives benefit from the most up-to-date research being undertaken within the industry, research expenditure is targeted towards collaborative research with other water operators and regulators within the UK. This ensures that access is gained to high value, widely based research programmes in the Environmental, Quality, Engineering, Operational and Regulatory fields. Research into issues common to the UK water industry is procured through membership of the UK Water Industry Research Centre and the Foundation of Water Research.

Political and charitable contributions
No political or charitable contributions were made during the year. However, Scottish Water supports WaterAid, a charity founded by the UK water industry, which raises funds for water related projects overseas. Employees represent Scottish Water at fundraising events and on regional fundraising committees, which are periodically provided with facilities and other support.

Employee relations and involvement
The Scottish Water group of businesses employed an average of 3,542 staff during the year. Details of the costs incurred in relation to these staff can be found in note 5 to the financial statements on page 45. Scottish Water is committed to a policy of equal opportunities for all employees irrespective of race, religion, sex, disability or age and uses a number of forums to encourage employee involvement. Employees are kept involved through a process of regular team meetings, employee newsletters and representation on consultative forums.

Scottish Water is committed to continually improving its performance in relation to Health and Safety. Through an extensive safety awareness campaign, safety briefings and ongoing training, awareness of health and safety issues is being encouraged and increased among employees.

Payment of suppliers
Scottish Water agrees terms and conditions with suppliers before business takes place. Provided that all trading terms and conditions have been complied with, it is Scottish Water's policy and practice to pay agreed invoices in accordance with the terms of payment. At 31 March 2011, the amount owed to trade creditors was equivalent to 29 days of purchases from suppliers.

Auditors
PricewaterhouseCoopers LLP chartered accountants and registered auditor were appointed as auditors by the Auditor General for Scotland in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Members' remuneration report

Scottish Water adopts the same practice as quoted companies in the presentation of this Remuneration Report, even though it is not a quoted company.

1. Remuneration Committee

a. Remit

The Remuneration Committee meets regularly to consider the remuneration arrangements for Executive Members, and other related remuneration matters, and makes recommendations to the Board. No Executive Members are involved in deciding their own remuneration.

b. Membership

The Remuneration Committee is chaired by a Non-executive Member, Donald Emslie, and includes Pat Kelly and Alan Bryce, both Non-executive Members.

During the year external independent advice was provided by Hay Group Management Consultants. In addition, Hay Group Management Consultants provided Scottish Water with remuneration survey data. Internal advice was provided by the Chair of Scottish Water, the Chief Executive, and the Director of Human Resources & Development. No Executive Member was present during discussions about their own remuneration.

c. Meetings

There were four meetings of the Committee in 2010/11. At each meeting a quorum of independent, Non-executive Members was present.

2. General remuneration policy

Scottish Water's vision is to become *Scotland's most valued and trusted business, one that we can all be proud of.* Scottish Water will build on its past success by seeking to provide levels of service, performance and efficiency which exceed the expectation of its customers, regulators and the Scottish Government.

Scottish Water will continue to provide a working environment that matches the expectations it places on its people to deliver best value outcomes in an empowered organisation. Scottish Water's staff remuneration and incentivisation policies are a major contributor to achieving Scottish Water's goals. This requires terms of employment for all employees that, taken together, ensure that Scottish Water is perceived as a fair employer that encourages excellence, rewards productivity and empowers its people as well as providing scope for personal development.

Scottish Water's overall remuneration policy aims are to:

- Attract, develop, motivate and retain highly talented people at all levels of the organisation.
- Pay in line with 95% of the median of an agreed industry benchmark group, reflecting remuneration levels in comparable organisations for similar work. The Committee reports that the current levels of remuneration are falling behind that benchmark.
- Incentivise and reward good individual and corporate performance.

3. Policy on Executive Members' remuneration

a. Comparator organisations

Scottish Water is publicly owned and accountable to the Scottish Parliament and Scottish Ministers. Within the context of public sector ownership, Scottish Water seeks to attract, retain and motivate leadership talent in competition not just with other utilities and other organisations in the public sector, but with organisations across the UK economy.

Scottish Water uses the remuneration database of Hay Group Management Ltd to benchmark the remuneration practices of both comparator organisations and industry in general with its own. This is the largest remuneration database in the UK with each job subjected to the same method of job sizing.

b. Remuneration elements

Scottish Water's Remuneration Policy for Executive Members consists of five principal elements:

- Base salary;
- Annual out-performance incentive plan (AOIP);
- Long term incentive plan (LTIP);
- Pension; and
- Allowances (for business needs, car, relocation, etc.).

c. Relative importance of performance incentives

Scottish Water is a performance-orientated organisation. It believes that Executive Members' remuneration should be closely related to both corporate and individual performance. The aim is to pay a base salary that is as competitive as appropriate within public sector ownership and provides the opportunity for extra discretionary pay to be earned for out-performance of demanding targets.

d. Annual out-performance incentive plan – 2010/11

Scottish Water has an annual out-performance incentive plan (AOIP) that is designed to incentivise and reward the out-performance of targets agreed with regulators. The targets are set out in the 2010 Delivery Plan that has been approved by Scottish Ministers, and reflect the targets set by the Water Industry Commission in its Final Determination of charges for 2010-15. The Delivery Plan targets, out-performance targets, and actual performance for each measure in 2010/11 are set out below.

Measure	**Delivery Plan target**	**Out-performance target**	**Actual performance**
Profit before tax excluding depreciation (measured on a regulatory accounting basis)	£425.0m	£440.0m	£433.5m
Customer service OPA performance	302	322	330
Investment delivery • Q&S2/3a completion projects outstanding • Q&S3b overall measure of delivery score	 66 63	 50 >63	 62 82

This performance generated the following awards, based on the criteria set at the start of the year:

Measure	% allocated	% awarded
Profit before tax excluding depreciation	40%	23%
OPA score	40%	40%
Investment delivery	20%	12%

The potential maximum annual incentive attainable for out-performance by the Executive Members is 40% of base salary and is non-pensionable. Overall AOIP awards in 2010/11 were 30% of annualised salary.

Non-executive Members are not eligible for incentive payments.

e. Long term incentive plan to incentivise out-performance in the five years to March 2015

The Long Term Incentive Plan (LTIP) has been agreed with the Scottish Government and provides clear targets for out-performance of the Water Industry Commission's Final Determination for the 2010-15 period. Payments under the scheme will only be made to Executive Members remaining in employment with Scottish Water on 1 January 2016. The LTIP will only be payable if there is overall financial out-performance of the Final Determination.

The plan is based on:

- 50% for performance against financial targets, being the extent to which net debt is lower in March 2015 than was assumed in the Final Determination. Maximum LTIP would be payable for at least £100m out-performance.
- 50% for out-performance of OPA targets above those set out in the Final Determination, measured as the average performance in 2013/14 and 2014/15. Maximum LTIP will be payable for an OPA score of at least 400, 20 points higher than the Final Determination target of 380.
- The LTIP will be funded by 12% of annual salary being accumulated each year, during the five years to March 2015, for ultimately vesting if earned by eligible Executive Members. Any LTIP payment will only be funded from financial out-performance after payment of any incentive awards to staff.

Confirmation of awards under the LTIP will be made following independent review of performance in the 2010-15 period by external auditors and our regulators.

f. Long term incentive plan for out-performance delivered for April 2006 – March 2010

A scheme was agreed with the Scottish Government that provided clear targets for out-performance of the Water Industry Commission's 2005 Final Determination. In January 2011, payments under the scheme were made to Executive Members at the maximum level of 15% of salary for each year that they were employed in the 2006-10 period.

Half of the payment related to out-performance against financial targets. The plan provided for payment to relate to the extent to which net debt was lower in March 2010 than assumed in the 2005 Final Determination, with maximum payment being due for greater than £100m out-performance. Scottish Water generated £162m out-performance.

The other half of the payment related to out-performance of the OPA targets set out in the 2005 Final Determination, with maximum payment being due for a 2009/10 OPA score of 271 or greater. Scottish Water achieved a 2009/10 OPA score of 291, an 80% improvement on the 2005/06 OPA score of 162.

4. Service contracts

Details of Executive Members' permanent contracts are set out below.

Executive Member	Name	Date of Contract
Chief Executive	Richard Ackroyd	25 March 2008
Asset Management Director	Geoff Aitkenhead	1 April 2002
Finance & Regulation Director	Douglas Millican	1 April 2002
Commercial Director	Chris Banks	1 April 2002
Customer Service Delivery Director	Peter Farrer	13 October 2008

All Members are required to give six months' notice of resignation. Scottish Water is required to give Members twelve months' notice of termination.

Non-executive Board Member appointments
The Non-executive Members do not have service contracts. Non-executive Members are expected to work four days per month for Scottish Water with the exception of the Chairs of the Audit and Remuneration Committees, David Gray and Donald Emslie respectively, who work five days per month and the Chair, Ronnie Mercer, who works 2.5 days per week. No compensation is payable to any Non-executive Member if their appointment is terminated early. The expiry dates of Non-executive appointments are as follows:

Ronnie Mercer	30 September 2011
Donald Emslie	31 March 2012
David Gray	31 March 2012
Alan Bryce	31 March 2013
Pat Kelly	31 March 2013
Lynne Peacock	31 March 2013
James Spowart	31 March 2013
Andrew Wyllie	31 March 2013

The auditors are required to report on information contained in the following sections of the Remuneration Report.

5. Members' Remuneration

Details of Members' Remuneration, as defined in the Scottish Water Governance Directions 2009 by Scottish Ministers, are set out below for the year.

Remuneration in respect of 2010/11	Salary/ Fees £'000	AOIP £'000	Benefits £'000	Total £'000	Total 2009/10 £'000
Executive Members					
Richard Ackroyd	263	79	10	352	336
Geoff Aitkenhead	172	51	9	232	236
Chris Banks	159	48	10	217	223
Peter Farrer	155	46	10	211	214
Douglas Millican	173	52	10	235	237
Non – Executive Members					
Ronnie Mercer (Chair)	90	-	9	99	99
Alan Bryce	20	-	-	20	20
Donald Emslie	25	-	-	25	25
David Gray	25	-	-	25	25
Pat Kelly	20	-	-	20	20
Lynne Peacock (i)	20	-	-	20	18
James Spowart	20	-	-	20	20
Andrew Wyllie	20	-	-	20	20
Total Members' remuneration	**1,162**	**276**	**58**	**1,496**	**1,493**
Former Members					
Alistair Buchanan (ii)					2
Total	**1,162**	**276**	**58**	**1,496**	**1,495**

(i) The total for 2009/10 was from date of appointment to the Board on 6 May 2010.
(ii) Resigned on 19 April 2009.
(iii) A car or car allowance is provided to all Executive Members and the Chair for business needs. The associated annual benefit is included in the benefits section of the table above. For Members opting out of the company car scheme, a car allowance is payable.
(iv) The benefits section also includes the value of any sale of annual leave by Executive Members.
(v) The AOIP criteria are explained on page 29.
(vi) In addition to the above, the Executive Members were paid a total of £454,031 in respect of LTIP awards for out-performing the regulatory settlement for the period from April 2006 to March 2010 (by £162 million and for improving customer service by 80%) under the plan set out on page 29. The awards were made to Richard Ackroyd (£78,900), Geoff Aitkenhead (£103,206), Douglas Millican (£103,700), Chris Banks (£95,481), and Peter Farrer (£72,744).

6. Pension

The Executive Members, other than Richard Ackroyd, participate in the Lothian Pension Fund, a defined benefit scheme. Details of their benefits under this scheme are set out below. Richard Ackroyd does not participate in this pension scheme but Scottish Water contributed £92,050 (2010: £92,050) to his pension arrangements during the year.

	Increase in accrued benefits during the year net of inflation			**Accumulated total accrued benefits at 31 March 2011**		**Transfer Values (note 4)**		
	Years in Scheme	**Pension £'000**	**Lump sum £'000**	**Pension £'000**	**Lump sum £'000**	**At 31 March 2011 £'000**	**At 31 March 2010 £'000**	**Decrease in 2010/11 net of Members' own contributions and inflation £'000**
Geoff Aitkenhead	32.4	3	-	71	196	1,484	1,529	(62)
Chris Banks	16.7	3	-	35	88	598	615	(32)
Peter Farrer	26.7	2	-	53	143	850	907	(71)
Douglas Millican	16.1	3	-	36	91	510	545	(51)

Notes:

1. Members of the pension scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.
2. The normal retirement age of Executive Members is 65.
3. The pension entitlement shown is that which would be paid annually on retirement along with the lump sum, based on service to the end of the year.
4. The transfer value of accrued pension is calculated in a manner consistent with Actuarial Guidance Note GN11.

This report was approved by the Board and signed on its behalf by:

Mr Donald Emslie,
Chair of the Remuneration Committee
1 June 2011.

Statement of Members' responsibilities
for the preparation of the financial statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the Auditors' Report on pages 34 to 35, is made with a view to distinguishing the respective responsibilities of the Members and of the auditors in relation to the financial statements.

The Members are required by the Water Industry (Scotland) Act 2002 and directions made thereunder to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Scottish Water and of its income and expenditure for that period. In preparing those financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of Scottish Water and to enable them to ensure that the financial statements comply with statute and any financial reporting requirements. They are also responsible for taking reasonable steps to safeguard the assets of the business and to prevent and detect fraud and other irregularities.