

Reasonable assurance: Philips puts data scrutiny first

Challenge

Global health technology conglomerate, Philips, wanted to align the rigor applied to non-financial data with financial data, to build trust with their stakeholders and prepare for future mandatory regulations for ESG disclosures.

Solution

ESG data including a materiality analysis was embedded in an integrated report. Auditors were presented with the results, process and raw data to understand how material topics were determined using Datamaran - a reliable, traceable and systematic solution.

Result

Philips redesigned its business processes, improving internal controls over ESG data, and ultimately building a streamlined, evidence-based and auditable materiality analysis process and matrix.

Increasing stakeholder demand for ESG

Pressure on corporations to provide credible Environmental, Social and Governance (ESG) information from regulators, investors and other key stakeholders is mounting. This has led to C-Suite and Corporate Leaders finding themselves responsible for more sustainability issues than ever before.

One established approach to ensuring credibility is to install rigorous controls and procedures for the management of ESG issues and obtain external assurance over sustainability disclosures.

Philips, a leading global healthcare technology business, is a company that places great importance on obtaining third-party assurance for ESG disclosures. To inform the decision on which ESG issues to address in their sustainability efforts, Philips regularly conducts a robust, evidence-based and objective [materiality analysis](#) with the Datamaran platform. This analysis is embedded in their annual integrated report and subject to reasonable assurance.

As a company with a longstanding reputation for leadership in sustainability, obtaining reasonable assurance from its auditor, Ernst & Young (EY) is an important factor for securing stakeholder confidence.

Philips' approach to assurance for ESG

For Philips, it was a given that its sustainability efforts should be externally assured because the credibility of its data is essential. [Simon Braaksma](#), Senior Director of Corporate Sustainability, says that the company has been committed to sustainability for many years and that part of this commitment is to provide data in a way that stakeholders can trust.

Core to this approach is that sustainability is not an add-on to their business: it is fully integrated. To achieve that, their approach to financial and non-financial data needed to be aligned. For Braaksma, it is important that stakeholders find the company's non-financial disclosures as trustworthy as its financial data, meaning that reasonable assurance on all data, including the materiality analysis results, needs to be obtained. Auditors were presented with the materiality analysis process and raw data to understand how material topics were determined using Datamaran.



Simon Braaksma, Senior Director of Sustainability Reporting at Philips, at Datamaran's our European User Forum

The value of reasonable assurance when compared to limited assurance is implicit in the language used by auditors. In limited assurance, the auditor’s conclusion takes the form of a non-committal, almost defensive statement such as: “Nothing has come to our attention that causes us to believe that the report is not fairly stated.” In reasonable assurance, the conclusion is expressed in a more affirmative fashion: “In our opinion, this report in all material respects is fairly stated.”

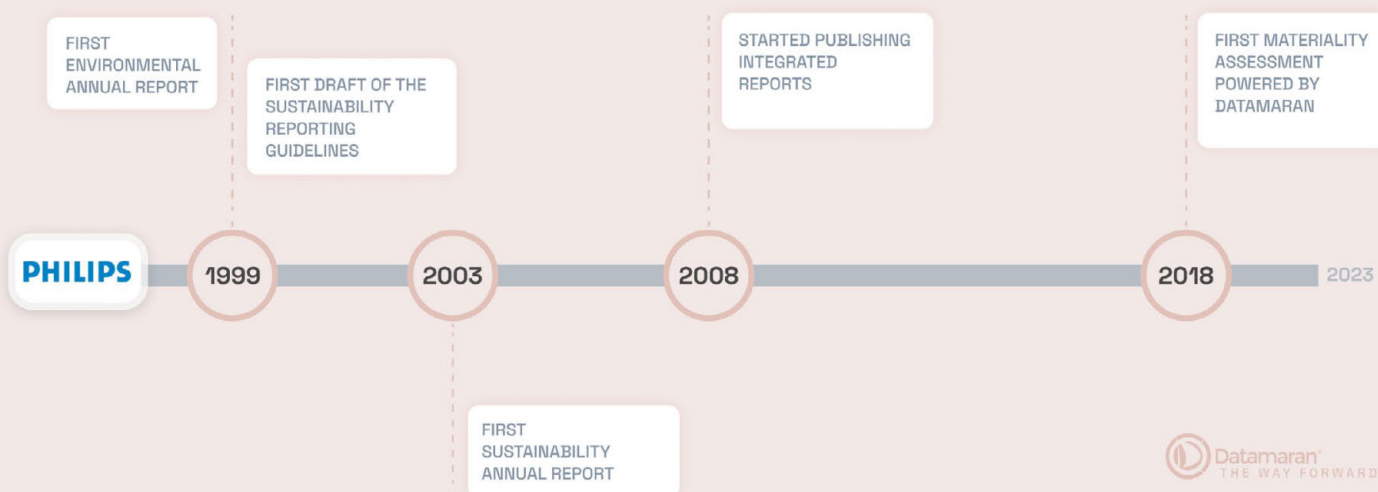
In a constantly evolving regulatory landscape, Braaksma believes that obtaining reasonable assurance now will help prepare the company for the [implementation of the new EFRAG European Sustainability Reporting Standards \(ESRSs\)](#): “for many years, we had anticipated that assurance for ESG would transition into the regulatory space,” he says “, as such we’re well prepared - let them come, we are at that stage already.”

Furthermore, through Datamaran’s double materiality capabilities, Philips are able to address another mandatory requirement of the ESRSs.

From 2024 onwards, the ESRSs will mean it is mandatory for many European companies and certain non-European companies to obtain limited assurance over ESG disclosures, which must include a double materiality assessment. The ambition of EFRAG is to [move to reasonable assurance](#) at a future date.

Reasonable assurance powered by Datamaran

Datamaran’s data and insight allowed Philips to redesign business processes and improve internal controls over ESG data. Ultimately it was able to build a streamlined, evidence-based and auditable materiality analysis process & matrix.



According to Braaksma, “What we now have with Datamaran is a process that is not only extremely auditable but also, in my opinion, provides a far deeper insight than simply relying on input from 20 or 30 people that you would normally invite to a stakeholder engagement session.” In other words, Datamaran analyzes valuable data from multiple publicly available sources to represent stakeholders’ voices, before aggregating it in a comprehensive and dynamic assessment. It explains why certain topics are material, and backs it up with data.

As described in Philips' 2021 annual report, "By applying Datamaran's automated sifting and analysis of millions of data points from publicly available sources, including corporate reports, mandatory regulations, and voluntary initiatives, as well as news... we identified a list of topics that are material to our business. With this data-driven approach to materiality analysis, we have incorporated a wider range of data and stakeholders than before and managed to get an evidence-based perspective into regulatory, strategic, and reputational risks and opportunities."

Internal controls & reasonable assurance

"You can only have reasonable assurance if you have good internal controls," said Braaksma. "You need a good internal control framework and processes. You also need to find an auditor who is willing to work with you on this." Philips has chosen to use EY, which already audits its financial reporting, rather than bringing in another third party to deal with non-financial data. In the Netherlands, assurance of sustainability reports is done according to a national standard based on the ISAE 3000, which was used for the process carried out by EY.

The greatest challenge, and the greatest reward, for organizations comes from identifying and justifying which topics are material and should be presented in the report to show how they are addressed. Philips was no exception. "What we did in the past regarding stakeholder engagement and materiality analysis, in particular, is going through a pretty manual process whereby we invited stakeholders to an event," explains Braaksma. "We had a good afternoon of discussions and then put a report out."

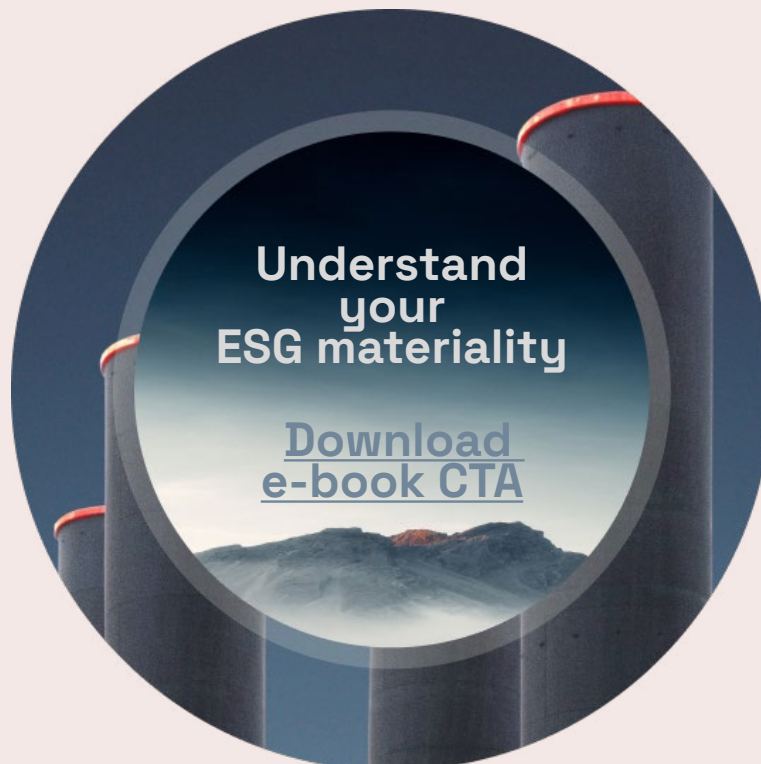
To be able to conduct reasonable assurance of their non-financial data, Philips needed to implement a more reliable, traceable, and systematic solution, which is why they turned to Datamaran.

Datamaran provided a consistent methodology and rationale for identifying and monitoring a company's material issues, with an approach that aligns in line with major external assurance standards such as AA1000AS and ISAE3000. Its approach, which quantifies qualitative information with [patented technology](#), is fully auditable by default. Every step of every stage is documented and evidenced with all raw data traceable to the source.

An auditor's perspective

Even for a company as large and resourceful as Philips, it is difficult to keep up to date with all the relevant developments (peer disclosure, applicable legislation, voluntary initiatives, news etc.) around the world that affect the industry. Datamaran is designed to enable companies to monitor and analyze emerging non-financial risks and opportunities on a continuous basis. By automating what has traditionally been a manually generated analysis, efficiency, and accuracy are greatly improved. Each step of the analysis and every data point are fully traceable to each individual data source, which makes the materiality process easily assured.

It may seem surprising that with all the talk about sustainability, Philips is among the growing number of companies that apply reasonable assurance to their non-financial reporting. In the words of its auditor, EY: "Philips is indeed at the forefront of integrating sustainability into business-as-usual. Having its sustainability data reasonably assured is a testimony of Philips' commitment. Datamaran has certainly facilitated the assurance process by providing a proper audit trail of their materiality process." Phillips may not be the first, but for companies that are truly committed to sustainability, it is a lead that would be natural to follow.



| Offices: London | The Netherlands | United States | Valencia

| UK +44 20 7702 9595 | USA +1 929 506 6497

| LinkedIn [@Datamaran](#)

| Web www.datamaran.com

About Datamaran

Datamaran is the only software in the world that provides a fully automated solution for identifying and monitoring material ESG risks and opportunities. It provides leaders with a clear understanding of the ESG risk landscape, enabling them to create data-driven strategies in-house with confidence.

Datamaran helps leaders lead by showing them the way forward.

© Datamaran, Ltd. All rights reserved. | Please read [Datamaran's Privacy Policy](#)