COORDINATION BETWEEN INTERNAL AUDIT AND EXTERNAL AUDIT
CONTACT INFO

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DTE Energy is a Fortune 300 company with deep Michigan roots

Our Business

- Market cap ~$18 billion
- Two fully regulated utilities serving Michigan
  - DTE Electric (founded 1886)
  - DTE Gas (founded 1849)
- Non-utility businesses with operations in 19 states

Michigan Strength

- Top tier regulatory environment supports utility investment
- Constructive energy legislation supports transition to cleaner energy
- Strong state and local economy provides avenue for growth
Growth is driven by strong, stable utilities and complementary non-utility businesses.

75%-80% Utility

DTE Electric
- Electric generation and distribution
- 2.2 million customers
- Fully regulated

Growth driven by infrastructure investments aimed at improving customer reliability

DTE Gas
- Natural gas transmission, storage and distribution
- 1.3 million customers
- Fully regulated

20%-25% Non-Utility

Gas Storage & Pipelines
- Transport and store natural gas
- 5 pipelines, 91 Bcf of storage

Growth driven by strategic opportunities

Power & Industrial Projects
- Own and operate energy related assets
- 66 sites, 17 states

Energy Trading
- Active physical and financial gas and power marketing company
Continuous improvement has enabled us to be an industry leader in cost management

2008 to 2015 Change in O&M Costs

Electric Peers*

DTE Electric
-3%

Average 34%

82%

DTE Gas
-5%

Gas Peers**

Average 22%

92%

Daily focus on problem solving
✓ Metrics drive progress
✓ Scorecards monitor success

** Source: SNL Financial, FERC Form 2; gas distribution companies with greater than 300,000 customers; excluding production expense
* Source: SNL Financial, FERC Form 1; major US Electric Utilities with O&M greater than $800 million; excluding fuel and purchased power
COORDINATION MODELS

• Little to no interaction
• Don’t work with but use the external audit firm as a “learning partner”
• External Auditors rely on significant SOX testing done/reperformed by SOX compliance functions or Internal Audit
• Internal Auditors provide “direct assistance”
Internal Audit Work – excerpt from AU 322.12

- The internal auditors’ work may affect the nature, timing, and extent of the external audit, including –
- Procedures the auditor performs when obtaining an understanding of the entity’s internal control.
- Procedures the auditor performs when assessing risk.
- Substantive procedures the auditor performs.
How does the work of internal audit impact external audits?

<table>
<thead>
<tr>
<th>Ways to use internal audit</th>
<th>Does this provide direct substantive and/or controls evidence?</th>
<th>Is testing of some of IA’s work required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Assistance</td>
<td>Yes</td>
<td>Yes – testing is performed by reperforming some of IA’s work.</td>
</tr>
<tr>
<td>Use of Work of Internal Audit</td>
<td>Yes</td>
<td>Yes – testing is performed by either (a) reperforming work or (b) testing similar controls or transactions</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>No – risk assessment evidence</td>
<td>No</td>
</tr>
</tbody>
</table>
## How can external auditors use the work of internal audit?

<table>
<thead>
<tr>
<th>Ways to use internal audit for both controls and substantive testing</th>
<th>How does the standard describe this work?</th>
<th>Does this provide direct evidence for external auditor?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Assistance</td>
<td><em>In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work.</em> (AU 322.27)</td>
<td>Yes, the internal auditor is performing our work under our direct supervision</td>
</tr>
<tr>
<td>Use of Work of Internal Audit</td>
<td><em>Some procedures performed by the internal auditors may provide direct evidence about material misstatements in assertions about specific account balances or classes of transactions.</em> (AU 322.17)</td>
<td>Yes, the auditing standard stipulates this is direct audit evidence</td>
</tr>
</tbody>
</table>
How can external auditors use the work of internal audit? (continued)

<table>
<thead>
<tr>
<th>Using internal audit for direct evidence</th>
<th>How do the standards describe the auditors role with respect to internal audit’s work?</th>
<th>Is testing some of IA’s work required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Assistance</td>
<td><em>The auditor should…supervise, review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances (AU 322.27)</em></td>
<td>Yes – testing is performed by reperforming some of IA’s work.</td>
</tr>
<tr>
<td>Use of Work of Internal Audit</td>
<td><em>The auditor should…evaluate the quality and effectiveness of the IA’s work (AU 322.24)…test some of the IA’s work…by either (a) examining some of the controls, transactions, or balances that the internal auditors examined or (b) examining similar controls, transactions, or balances not actually examined by the internal auditors (AU 322.26)</em></td>
<td>Yes – testing is performed by either (a) reperforming some of IA’s work or (b) testing similar controls or transactions</td>
</tr>
</tbody>
</table>
DTE working with PwC to reassess how much and what work we do

- We are assuming that there is generally no difference in our efficiency vs that of PwC
- Using our salary plus benefits and support cost divided by productive hours
- Need to consider which are the incremental hours to what we would have to do anyway
- Taking into account that PwC needs to reperform a portion of our testing to rely upon it and there is a limit to the amount of reliance allowed
- One issue is how this work impacts our “peaking” needs and how to consider this
- Working with Controllers to consider any budget transfer issue
EXAMPLES OF LEARNING

- Methodology and practice standards
- Technology, data analytics, RPA
- Talent and development
- What is coming