

HONDA

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August 26, 2015

Mr. Frank Borris
Director, Office of Defects Investigation
National Highway Traffic Safety Administration
1200 New Jersey Avenue, S.E.
Washington, D.C. 20590

Dear Mr. Borris:

In accordance with Paragraph 24 of the Consent Order entered into by American Honda Motor Company, Inc. ("Honda") and NHTSA on December 29, 2014, Honda has completed a third-party audit of all of its reporting under 49 C.F.R Part 579 and herewith provides NHTSA a report detailing the findings of that audit.

As to the substance of the report, Honda already has begun to develop and implement process improvements to address each of the three observations included on page 6 and 7. While that effort is ongoing, Honda is confident that all necessary process improvements will be fully developed and deployed well in advance of the second third-party audit required under Paragraph 25 of the Consent Order.

Please let me know if you have any questions or need any additional information.

Sincerely,



Jeff Chang
Senior Manager, TREAD

Enclosure: TREAD Reporting Process Assessment

cc: Tim Goodman
Leo Yon



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Honda North America, Inc.

Transportation Recall Enhancement, Accountability
and Documentation (TREAD)
Reporting Process Assessment

August 6, 2015

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This report summarizes the procedures performed for the TREAD reporting process assessment and the related observations. The observations discussed in this report are based on documents analyzed and discussions with Honda North America, Inc. (“Honda”, or “the Company”) conducted as of the date of this report. The observations discussed in this report could change based on the analysis of additional documentation or participation in additional discussions. Deloitte & Touche LLP (“Deloitte”, “we”, or “our”) reserves the right to amend this report if additional information relevant to our observations becomes available.

BACKGROUND

As an automotive Original Equipment Manufacturer (“OEM”) of light vehicles and motorcycles, Honda North America, Inc. (“Honda” or “the Company”) is required to comply with the Early Warning Reporting (“EWR”) provisions of the Transportation Recall Enhancement, Accountability and Documentation (“TREAD”) Act, 49 C.F.R. Part 579, Subpart C, et seq.) (the “Act”). The regulations promulgated under the Act require manufacturers of motor vehicles, motor vehicle equipment, child safety systems and tires to submit regularly to the National Highway Traffic Safety Administration (“NHTSA”) certain information and documentation. The purpose of the Act is to enhance motor vehicle safety by specifying information and documents that manufacturers of motor vehicles and motor vehicle equipment must provide to NHTSA with respect to possible safety-related defects and non-compliances in their products, including the reporting of safety recalls and other safety campaigns that the manufacturer conducts outside the United States.

The EWR requirements for OEMs include reporting production numbers, information on incidents involving death or injury, and information concerning property damage claims, consumer complaints, warranty claims and field reports. In connection with certain regulatory proceedings, NHTSA found and Honda agreed that the Company had not fully and accurately reported certain death and injury incidents, customer satisfaction campaigns, special warranty extensions and warranty claims that were required to be reported under the Act.

As a result, NHTSA and Honda agreed upon and executed a consent order setting forth certain requirements and actions that Honda agreed to undertake to resolve the issues regarding Honda’s compliance with the TREAD Act EWR requirements. This “Consent Order” was signed and agreed to by NHTSA and Honda on December 29, 2014.

Among other things, the Consent Order required that Honda develop written procedures for comprehensive early warning reporting and a report detailing Honda’s efforts to implement these written procedures. In response to the Consent Order, Honda developed a set of procedures to assist personnel involved with data collection and reporting of TREAD EWR data to NHTSA. The procedures are applicable to all personnel responsible for TREAD Act data collection and reporting and have been referred to by the Company as “TREAD Reporting Procedures”. The TREAD Reporting Procedures prepared by Honda were dated February 27, 2015 and were submitted to NHTSA in accordance with the Consent Order.

In order to further facilitate the implementation of the TREAD Reporting Procedures at Honda, the Company also has undertaken the development of detailed work instructions for Honda personnel responsible for collecting and reporting TREAD data, which have been referred to by the Company as “TREAD Work Instructions.” The Work Instructions support Honda’s TREAD Reporting Procedures submitted to NHTSA by providing operating instructions for compiling and managing relevant data inputs. The Company currently is in the process of enhancing these TREAD Work Instructions, as continuous improvement changes are implemented. The instructions provide Honda personnel with detailed guidance on the purpose, responsibility,

process owner and the required steps to be performed in order to consistently and reliably implement the TREAD Reporting Procedures.

Both the TREAD Reporting Procedures and the in-process TREAD Work Instructions are the primary guiding framework against which we performed our assessment.

OBJECTIVE

Paragraph 24 of the Consent Order provides, in relevant part:

“... Honda shall complete a third-party audit of all of Honda's reporting under 49 C.F.R. Part 579... Honda shall submit to NHTSA a report detailing the findings of the audit that will be made publicly available...”

In accordance with the foregoing, Honda engaged Deloitte to provide an assessment of the company's reporting processes related to the EWR requirements of the TREAD Act in accordance with paragraph 24 of the Consent Order.

SCOPE

The foundational scope of our assessment was guided and defined by the above-referenced TREAD Reporting Procedures prepared by Honda's Product Regulatory Office (“PRO”), as submitted to NHTSA on February 27, 2015. We utilized the TREAD Reporting Procedures and, to the extent available as of July 15, 2015, Honda's TREAD Work Instructions for purposes of identifying relevant risks and controls performed by the Company related to its compilation and reporting of TREAD data to NHTSA. For those process areas where TREAD Work Instructions were not yet available as of July 15, 2015, we performed process walkthroughs with Company personnel, including inquiry and observation, as an alternative methodology in order to identify the relevant risks and controls performed by the Honda for those process areas.

From an overview perspective, we performed interviews of key Honda personnel and performed detailed process walkthroughs to obtain an understanding of the following data input and collection areas, and risks and controls, associated with Honda's compilation and reporting of TREAD data. The data gathered and utilized for purposes of our assessment covered the period of March 1, 2015 through July 31, 2015 (the “data collection period”):

- Production Data
- Death and Injury (United States)
- Death and Injury (Foreign)
- Foreign Recalls and Other Safety Campaigns
- Property Damage Claims
- Consumer Complaints

- Warranty Claims
- Field Reports

The scope of our review was focused on the risks and controls related to Honda's reporting processes and procedures and did not include an assessment of the accuracy of the underlying incident data associated with Honda's TREAD reports.

Our assessment was performed in accordance with the *Statement on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants ("AICPA"). Our procedures did not constitute an audit of financial statements or otherwise conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services pursuant to standards established by the AICPA, the Public Company Accounting Oversight Board or other regulatory body.

APPROACH

As outlined above, utilizing the TREAD Reporting Procedures and available TREAD Work Instructions provided by Honda, we conducted interviews of key Honda personnel and performed detailed process walkthroughs to obtain an understanding of the various business processes supporting Honda's compilation and reporting of TREAD EWR data and information. During these interviews and process walkthroughs, we identified key process risks, as well as the controls in place at Honda to mitigate the risk of inaccurate or incomplete TREAD reporting.

In general, we performed a variety of tests, summarized below, for risks and controls associated with Honda's TREAD reporting processes based on data collected by Honda during the data collection period. Given the fact that Honda's TREAD Reporting Procedures and submission to NHTSA were dated February 27, 2015, we determined it most appropriate to base our testing on data and business processes in effect at the beginning of the month following the submission of the TREAD Reporting Procedures, which would then allow us effectively to assess the processes in place for the Company's 2015 second quarter TREAD reporting. In determining the nature, timing and extent of tests to be performed, we considered: (a) the nature and frequency of the controls being tested, (b) the types of available evidence, and (c) the stage of implementation for the control.

Based upon the above, the tests we performed generally included one or more of the following:

Test	Description
Inquiry	Conducted interviews with Honda personnel to obtain evidence that the control was designed, implemented, or in operation during the data collection period.
Observation	Observed the performance of the control during the data collection period to evidence implementation and/or operation of the specific control activity.
Inspection	If the implementation or operation of the control was documented during the data collection period, examined documents indicating operation of the control.
Re-performance	Obtained documents used in the operation of the control during the data collection period, and re-performed the procedures based upon our understanding of the control from the walkthrough performed.

SUMMARY OF RESULTS

As described above, we utilized the TREAD Reporting Procedures and available TREAD Work Instructions as our basis for the assessment of the Company’s TREAD reporting processes. As of the date of this report, Honda continues to refine and develop their TREAD Work Instructions subsequent to our assessment. We utilized those TREAD Work Instructions provided to us by Honda as of July 15, 2015 (“cut-off date”) in our assessment. Any TREAD Work Instructions developed or modified after the cut-off date were not considered or utilized during our assessment.

Based on our assessment approach described above, it appears that Honda has substantially implemented their February 27, 2015 TREAD Reporting Procedures. However, we found several cases where controls had been designed according to Honda’s Work Instructions but could not be tested because the control implementation process had not been completed at the time of our assessment, or an appropriate sample size could not be obtained. We judged these situations as inconclusive and recommend revaluation once the control has been fully implemented.

Although the TREAD reporting procedures have been substantially implemented, we observed that the following processes and controls do not appear to have been performed consistently with the Company’s TREAD Work Instructions:

1. Management did not perform a reconciliation of the lawsuits report (provided by a third party) to the TREAD reporting database, potentially affecting the completeness and accuracy of the TREAD reporting.
2. There appeared to be potential inconsistencies of mapping between Honda internal labor operation numbers (“LONs”), part function codes, and allegation codes to the

NHTSA component codes specified within the TREAD Act. This could potentially affect the accuracy of the TREAD reporting.

3. Management did not validate internal labor operation numbers that are excluded from the TREAD reporting for motorcycle warranty claims, potentially affecting the completeness and accuracy of the motorcycle TREAD reporting.

We also identified areas for management to consider potential enhancements to the Company's business processes and controls supporting the February 27, 2015 TREAD Reporting Procedures. These enhancements, as communicated to management, fall into the three categories below:

- Verifying the completeness and accuracy of information relied upon by management
- Realignment of roles, responsibilities, and accountability within the TREAD reporting process
- Retention of evidence in the performance of the identified controls

In summary, based on our assessment approach described above, it appears that Honda has substantially implemented the February 27, 2015 TREAD Reporting Procedures, with additional opportunities for continuous improvement as provided to management in the course of our assessment.

Deloitte procedures were performed in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement on Standards for Consulting Services. Our procedures did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services in accordance with standards established by the AICPA, the Public Company Accounting Oversight Board or other regulatory body. The sufficiency of the procedures is solely the responsibility of the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

Deloitte cannot rule out the possibility that, had further work been conducted or additional information been available, the observations might have been different or additional matters may have been identified to bring to your attention. Had Deloitte conducted additional procedures, additional or different observations may have resulted. We call your attention to the possibility that other professionals, including Company's regulators, may perform procedures concerning the same information or data, and perhaps the same accounts and records, and reach different observations than Deloitte for a variety of reasons, including the possibilities that additional or different information or data might be provided to them that was not provided to Deloitte, that they might perform different procedures than did Deloitte, or that professional judgments concerning complex, unusual, or poorly documented matters may differ.

The procedures and observations presented herein rely upon documentation, electronic data and verbal information provided to us by the Company. Should any of the documentation, electronic data and verbal representations or explanations be incorrect or misleading, any observations, or interpretations contained herein may be incomplete and/or may have generated different results, which would require further or amended procedures, outside of the scope of this engagement.

Reports, schedules, documents, or other materials provided by Deloitte and its related entities are not to be used, in whole or in part, by the Company for any purpose other than in connection with the Consent Order. Reports or other materials issued or prepared by Deloitte may also be provided to the U.S. Department of Transportation and NHTSA in connection with the Consent Order. Neither the Deloitte Work Product nor the services by Deloitte are intended for the express or implied benefit of any third party.