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Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C.
20006-2803

(SENT VIA EMAIL TO: comments@pcaobus.org)

Re: Rulemaking Docket Matter No. 008

We are pleased to provide comments on PCAOB Release No. 2003-017 Proposed Auditing Standard – An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements.

EnCana is one of the world's leading independent oil and natural gas production companies with an enterprise value of approximately US$21 billion. EnCana explores for, produces and markets natural gas, crude oil and natural gas liquids in Canada, the United States, the U.K. North Sea and Ecuador. EnCana is listed on the New York Stock Exchange and the Toronto Stock Exchange.

As a foreign private issuer, EnCana's auditors will be subject to the PCAOB rules when they issue their opinion on EnCana's assessment of the effectiveness of its internal controls. In preparing for compliance with section 404 of the Sarbanes Oxley Act, EnCana has taken an overall approach to assessing internal controls that is similar to the approach proposed by the PCAOB. However, we would like to express our concerns and provide our comments on the following three matters with respect to the proposed standard.

1. Definitions

Internal Controls Deficiency

The proposed definition of internal control deficiency does not adequately recognize the inherent limitations of internal controls. The proposed rules state that even when a control operates as designed, if the control objective is not ***always*** met, an internal control deficiency exists. This definition is inconsistent with paragraphs 11 and 15 of the proposed standard which recognize that internal controls have inherent limitations and can not provide absolute assurance, only reasonable assurance.

Significant Deficiency & Material Weakness

The proposed definitions are expressed in terms of likelihood and magnitude. This is a logical way to express these definitions. However, the proposed definitions use a level of likelihood that is too low, and a new term – "inconsequential" that is not clearly defined.

The draft rules propose that companies must design and implement internal controls to provide a level of assurance that is not practical and in some instances not possible. The following example illustrates this point.

When credit is granted to customers, controls such as credit applications, credit checks, and approvals are put in place to prevent losses due to customers not making payments. However, these controls, even when functioning as designed will not always prevent losses due to customers not making payment. Also, the likelihood that a customer will not make a payment is greater than remote. Assuming that the amounts of the losses are more than inconsequential, this would be a significant deficiency.

Processes that involve estimates become even more problematic. Continuing with the example of credit and assessing the controls that ensure the accuracy of the allowance for doubtful accounts related to those receivables, even if the controls operate as designed, there will be a more than remote likelihood that the allowance for doubtful accounts is incorrect because it is an estimate. The estimate could be incorrect by more than an inconsequential amount, and this would be a significant deficiency.

We strongly urge the PCAOB to reconsider the definitions of "significant deficiency" and "material weakness" in terms of the likelihood applied to these definitions.

With respect to the impact component of the definition, we suggest that the PCAOB provide further quantitative and qualitative definitions and examples as to what constitutes "inconsequential". Without further clarification, the application of this definition will be subjective.

As stated in the definitions, the primary difference between the definition of significant deficiency and material weakness relates to the impact. Based on the examples and other parts of the proposed standard, it appears that a significant deficiency can become a material error if it is uncorrected over a period of time. This presumption does not take into consideration the cost benefit factor associated with internal controls, nor does it take in to consideration the uncertain nature of estimates. Organizations may choose to accept a more than remote likelihood of an inconsequential error if the cost of implementing such a control significantly exceeds the cost of the error.

2. Audit Committee Evaluation

We believe that it is not appropriate to have external auditors evaluate the effectiveness of the Audit Committee's Oversight of the Company's External Financial Reporting and Internal Control Over Financial Reporting. Given the recent rules and increased disclosures that are required with respect to audit committee mandates and the independence of audit committees, all work of external auditors is approved by the audit committee. Requiring external auditors to evaluate the committee that is responsible for approving their work is a conflict of interest. Assessing the effectiveness of the audit committee is a responsibility of the board of directors. In addition, shareholders have a new level of information with respect to audit committees that provide them access to information that would allow the informed investor to form their own opinions on the effectiveness of audit committees.

3. Scope of Evaluation

We believe that further guidance should be provided on the scope of the evaluation with respect to investments and subsidiaries. With the recent accounting pronouncements such as FIN 46, this area needs to be further clarified. In the oil and gas industry the use of joint ventures also creates another complexity which is not directly addressed in the proposed standard. The proposed standard discusses the scope of the audit of internal control over financial reporting in terms of significant accounts. When applying FIN 46 or proportionate consolidation, companies may find themselves with accounts that have material balances that are aggregated from many third parties. Many of these third parties may be private companies that are not subject to the requirements of Sarbanes Oxley. For these entities, management may not have access to assessing the effectiveness of internal controls, and the cost of such assessments will be significant. We ask that the PCAOB review this area further taking these factors into consideration.

Yours truly,

ENCANA CORPORATION

Ron H. Westcott
Vice-President and Comptroller