

Businesses face social network, cloud computing risks

Chris Keall

Big Kiwi companies want to expand cloud computing but often are naive about the attendant risks.

That's according to an Ernst & Young survey of 21 large New Zealand organisations, which also found a clampdown on social networking. Some 52% of respondents said they planned to limit workplace access to sites like Facebook and Twitter and 29% said they had already implemented security and social media awareness programmes.

On social networking, E&Y partner Paul Mahan told *NBR* that while many organisations were instituting rules for social networking, it was not the norm to ban it altogether. His own organisation encouraged staff (within detailed guidelines) to use Twitter, Facebook and LinkedIn – both to stay current with new technology, and to develop contacts and market the E&Y brand.

Social networks had become an important way for E&Y to recruit new staff. However, it was not used as a medium for consulting advice. "At least, not yet."

Mr Mahan's comments echo those of social networking consultant Tom Skotidas, who told *NBR* that social networks can be used to build business-to-business contacts, which in turn can be monetised (see www.nbr.co.nz/tom_skotidas).

Dipping into the cloud

There are some examples of large local organisations delving into cloud computing (using software and storage hosted over the internet rather than your own servers and PCs). They include NZ Post, which uses the US-hosted commercial version of Google Apps; the University of Auckland, which uses Google Apps for its email; and NZ Post off-shoot Localist, which uses a broad array of cloud apps including the US-hosted Salesforce.com for customer relationship management, storage, internet calling and more.

Mr Mahan told *NBR* that many



PAUL MAHAN: General nervousness about losing data in the cloud



CHRIS QUIN: Companies reluctant

large New Zealand organisations were only dipping their toes into cloud computing and keeping core systems located in their own facilities, or at least on-shore.

There are regulatory hurdles – particularly for banks – and Government Communications Security Bureau guidelines about classified data for government departments.

Mr Mahan said there was also general nervousness about "losing sight of data in the cloud."

Geni chief executive Chris Quin told *NBR* that "despite all the potential of cloud computing,

Xero, MYOB, others on wrong side of IRD cloud warning

In December 2010, Inland Revenue issued a warning over cloud computing (*Revenue Alert RA 10/02* on www.ird.govt.nz).

"Inland Revenue is aware 'cloud computing' is becoming a popular way for businesses to set up their IT infrastructures. We are concerned that the use of cloud computing may mean businesses are not meeting their record-keeping obligations under the Inland Revenue Act," the IRD warned.

Specifically, companies are legally required to keep a local copy of business records. Yet some cloud accounting services (which only work over the internet) keep their data offshore. The most prominent is Xero, which recently claimed more than 50,000 paid business accounts. It hosts its files with US

provider RackSpace. Another is MYOB, whose cloud computing offering is hosted in Australia.

The warning could also affect corporate cloud computing and SaaS providers popular with large New Zealand organisations including Oracle (which hosts its cloud data in the US), enterprise resource planning software maker SAP (which hosts most of the data for its various cloud offerings in Germany), the popular customer relationship management provider Salesforce.com (the US) and Microsoft (whose Azure and Office 360 is hosted in Singapore).

Group tax counsel Graham Tubb said Inland Revenue was working with businesses who kept their records offshore and software developers to establish standard processes that would satisfy

tax compliance concerns. In particular, he said the IRD was working with service providers, such as Xero, to establish a process that would allow the IRD to agree that taxpayers using particular software products would not have to apply for individual exemptions (as the law currently allows).

This week, *NBR* asked IRD if there had been any update on its efforts. There was none and the IRD could provide no deadline for creating new guidelines.

Meanwhile, businesses using cloud computing services without an individual exemption from the IRD are still technically breaking the law.

The good news: the IRD says it won't enforce the individual exemption requirement until its new cloud computing guidelines emerge.

Fear and loathing

Some 1700 organisations were surveyed in Ernst & Young's Global Information Security Survey, including 21 from New Zealand.

E&Y said all the New Zealand organisations were large and included banks, electricity companies, retailers and large government departments. Some of their views:

■ 52% say they plan to

limit workplace access to sites like Facebook and Twitter;

■ 29% say they have implemented security and social media awareness programmes;

■ 77% of NZ respondents say they are using or are considering using cloud computing services within the next 12 months;

■ 74% of NZ respondents say there is an increasing level of risk due to external threats; and

■ 50% of NZ respondents say they are spending more on business continuity this year – largely because of the Christchurch quakes (similar figure in Australia after the Queensland floods).

many companies are reluctant to jump in because of concerns over security, operational performance, cost and control."

Mr Quin's company offers cloud services as one of its core offerings but he was candid in admitting that many organisations are about five years from being comfortable with putting core computing requirements on the internet. "Knowing that their data is hosted on-shore also reassures many organisations with concerns over where their data is located, and whether or not there is local support," Mr Quin said.

Security threat over-blown

Cloud computing systems have been compromised over the past 12 months. Most famously, Sony's Playstation Network and Sony Entertainment Network were offline for more than a month after hackers stole credit card details. The US-based Steam suffered a virtual break-in earlier this month.

One of the key players on the local cloud scene is fast-growing Fronde, a local agent for both Amazon and Google's cloud platforms (although Amazon is best known as an e-tailer, it has also developed a giant cloud computing infrastructure business). "We feel that many of the risks or perceived risks that organisations see for cloud computing are being overstated," Fronde's Helen Mills told *NBR*.

Fronde principal consultant James Valentine said in many cases a cloud computing setup offered better business continuity and security than a company's previous off-line setup.

Xero's Rod Drury reiterated this point, telling *NBR* that for many small businesses, "security" meant attaching a password on a yellow sticky to a monitor. If a company moved to the cloud, the only way was up.

Fronde, E&Y, Mr Drury and global cloud consulting commentator Ben Kepes agree on one thing: a cloud industry code of practice, being formulated by the NZ Computer Society (NZCS), will help reassure businesses about the new technology.

E&Y, unsurprisingly, is also pushing its ability to certify local cloud computing operations under ISAE 3402 – a global IFRS accounting standard (also being pushed by KPMG, PwC and Deloitte). Datacom, one of the winners of the government's recent cloud computing tender, is an early client.

Infrastructure roadblock

Mr Mahan also saw New Zealand's current telecommunications set-up as a barrier to cloud computing. Domestic broadband would be improved by the government's \$1.35 billion domestic Ultrafast Broadband rollout.

But, internationally, New Zealand was still vulnerable because it had a single fibre link to the outside world – the 50% Telecom-owned Southern Cross Cable (Two groups plan new cables: local start-up Pacific Fibre and a joint venture between China Telecom and Huawei but so far neither has a start date).

It's a concern shared by companies that offer cloud services. At the Auckland launch of Microsoft's Azure cloud service (which, for New Zealand customers, is hosted in Singapore), host David Chappell – jetted in by Microsoft US – complained the Southern Cross monopoly kept international data traffic rates high. Xero chief executive Rod Drury is one of the co-founders of Pacific Fibre, which is seeking funds to break Southern Cross' monopoly.

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Baby with the bathwater

Christchurch-based global cloud computing commentator Ben Kepes told *NBR* he found the general tone of E&Y's report a little alarmist.

"Cloud computing vendors live and die by providing a secure, reliable and consistent service to their customers. The fact that cloud is being chosen by the biggest of global companies along with government agencies is testimony to its security," Mr Kepes said.

"The risks the survey highlighted, in terms of external threats, are a function of an organisation having connectivity



Ben Kepes

with the outside world. While this is indeed a risk, it is also the way that

business functions and those who would react to external threats by locking the organisation down seem to be throwing the baby out with the bathwater."

The E&Y survey also found a jump in businesses assessing their disaster recovery and backup needs, which in turn is driving interest in cloud computing.

"One thing that the Christchurch earthquakes have shown us is that often when one takes a practical look at the situation, cloud [computing] may be more secure in totality than traditional delivery methods," Mr Kepes said.