## Audit Committee Roundup

# Cloud Adoption Points to IT Risk and Data Governance Challenges

### By Mary Pat McCarthy and Steven Hill

Not many directors speak "IT," but one word is likely to spark a robust dialogue with the CIO about how the company manages its IT risk and data security—and that word is "cloud."

We asked the 120 audit committee members attending our 2011 Audit Committee Issues Conference to identify their top oversight concerns for 2011, and IT and emerging technologies, such as cloud computing, were high on the list. But it's clear that few directors are comfortable dealing with IT—it's a different language, it's always changing and often there's a disconnect between IT and the business. Conference panelists attempted to bridge this language barrier and offered insights on how directors—particularly those who are not IT savvy—might oversee management's adoption of cloud computing.

For context: The demands on business IT infrastructures have increased dramatically, with companies generating huge amounts of data, sharing it among multiple users and transmitting it globally. More companies are turning to cloud and similar technologies to meet these IT demands in a cost-effective and scalable way. According to recent surveys, nearly two-thirds of companies are using or plan to use cloud computing over the next 24 months. At the same time, cloud computing poses significant regulatory and operational risks, as companies transfer data to third parties for storage, processing or support. Protecting intellectual property and safeguarding employee, customer and third-party information are key challenges.

Panelists emphasized another important but often-overlooked risk: individual business units may move to the cloud without an overall company-wide cloud-adoption strategy. Because of the ease of purchasing cloud IT services, executives may opt to purchase services directly through the cloud rather than obtain those services (e.g., sales-force support and HR applications) through the company's IT organization, particularly if it would mean additional delay or expense. In these instances, the company may lose control of its supply chain of IT providers, resulting in a fragmented data architecture and control situation. A critical question: Who is managing the company's cloud-adoption strategy, and what is the role of the CIO?

When many conference participants said their company has no plans to use the cloud—and only 19 percent said their audit committee receives briefings on the company's plans to use the cloud—panelists recommended probing more deeply about the company's cloud-computing plans and its policy on data governance and security:

- Is our data classified according to its sensitivity and criticality to the business?
- Who owns the data and applications? Who can access, delete or change data?
- Who is responsible for enforcement of the company's data-security policy?

Panelists also recommended insisting on a clearly articulated cloud-adoption strategy—including a roadmap and timeline for cloud adoption:

- Who is responsible for managing the company's cloud-adoption strategy?
- What cloud-based applications are being used—and have any business units moved to the cloud "on their own?"
- What information will be stored in the cloud? Where?
- Are the company's policies and procedures "cloud ready"? Does our data security policy contemplate a move to the cloud?
- Are we educating employees about use of the cloud?
- Are the CIO and CRO involved in selecting cloud service providers?
- How will we measure and track vendor performance?
- How can we retrieve data (e-discovery)?
- Is internal audit focused on key cloud-related risks?
- Do we meet regularly with the CIO?

As one panelist noted, over the next two years companies will create and transmit more data than was previously created and transmitted in all of history. Cloud computing will be critical in helping meet the demands of this environment. Given cloud's strategic importance—and the related risks—directors will want to understand and monitor their company's cloud strategy. Does the company have the necessary leadership, IT expertise and governance processes to manage the use of this technology?

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