Management of the Australian Development Scholarships Scheme

Australian Agency for
International Development (AusAID)

![Australian National Audit Office logo] Australian National
Audit Office

Canberra ACT
25 October 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a
performance audit of the Australian Agency for International
Development (AusAID), in accordance with the authority
contained in the *Auditor-General Act 1997.* I present this report
of this audit, and the accompanying brochure, to the Parliament.
The report is titled *Management of the Australian Development
Scholarships Scheme*.

Following its tabling in Parliament, the report will be placed on
the Australian National Audit Office's Homepage—
http://www.anao.gov.au.

Yours sincerely

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
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Abbreviations

ADCOS	Australian Development Cooperation Scholarships
ADS	Australian Development Scholarships
ANAO	Australian National Audit Office
ASTAS	Australian Sponsored Training Scholarships
AusAID	Australian Agency for International Development
PNG	Papua New Guinea
SIMS	Student Information Management System
SPS	Student Program Section
TAFE	Technical and Further Education

Summary and Recommendations

Summary

1.   Australian Development Scholarships (ADS) are the principal mechanism by which Australia provides scholarship assistance for individuals from developing countries to undertake studies at Australian education institutions. The scholarships help to meet the human resource development needs of developing countries and contribute to their development across various sectors. Scholarships also have an important role in fostering and sustaining Australia's relations with developing countries, particularly in the Asia-Pacific region.

2.   ADS assistance is managed by the Australian Agency for International Development (AusAID). More than 40 Australian education institutions provide training and other services for ADS students under contractual arrangements with AusAID.

3.   There were some 3700 ADS students from 50 countries in Australia in 1998. The largest recipients of ADS assistance were Indonesia, Vietnam, Papua New Guinea, the Philippines, Thailand, Fiji, China, India and Laos.

4.   ADS expenditure totalled $128 million in 1997–98. ADS represents some 20 per cent of country aid program expenditure, and substantially more than this for some countries.

5.   Students undertake studies at TAFE, undergraduate and postgraduate levels, with about half studying for postgraduate qualifications. The major fields of study are in economics, business and administration; natural sciences; and engineering.

6.   Applicants compete for ADS awards through annual selection processes conducted in their home countries. Students receive stipends and have their academic fees paid by AusAID. They are expected to complete their studies in minimum time, return home and apply their qualifications to contribute to their country's development. Each scholarship costs about $100 000 over the award period.

Audit objective

7.   The objective of the audit was to evaluate AusAID's management of the ADS scheme, particularly:

• strategic and performance management of the ADS scheme;

• the provision of ADS assistance to partner developing countries; and

• the management of contractual arrangements with Australian education institutions.

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Overall conclusion

8.   The administrative arrangements for ADS are a substantial improvement on those that existed for previous scholarship schemes. They have put AusAID's relationship with education institutions on a sounder basis, better integrated scholarship assistance into country aid programs and enhanced targeting of awards to meet the needs of partner countries. While AusAID's management of ADS is generally adequate, its performance falls short in some key areas of strategic and performance management, scheme planning and delivery, and contract management.

9.   AusAID is continuing to pursue options for improving the ADS scheme. In support of this, the ANAO identified scope for AusAID to improve the management of the scheme for better outcomes in contributing to the development of partner countries, by:

- enhancing performance management of the ADS scheme, through the development of appropriate performance indicators and more systematic reporting of performance results;

- ensuring appropriate attention to monitoring and addressing the level and impact of scholarship scheme losses and additional costs which result from students discontinuing their studies, not completing their studies within their award period, or not returning home;

- increasing the focus of ADS assistance to partner countries, through improved analysis of their human resource development needs and enhanced targeting of awards to help meet these identified needs; and

- strengthening contract management and contractual arrangements with education institutions, to enhance targeting and monitoring of student performance outcomes and to reduce fees where possible.

AusAID response

10.   AusAID agreed with the 11 recommendations in the report and advised of improvements under way or proposed as part of recently approved ADS management reforms.

11.   Responding to the report, AusAID commented:

The Australian Development Scholarships (ADS) scheme meets the Government's objective for the aid program advancing Australia's interests by assisting developing countries to reduce poverty and achieve sustainable development. The scheme does this by providing opportunities to people, principally drawn from countries in the Asia-Pacific region, to study at the tertiary level in Australia.

The benefits students derive from studying in Australia under the scheme are difficult to quantify. However, from a broader developmental perspective the scheme makes a substantial contribution to domestic governance in partner countries as many of these individuals take up positions in central government agencies, civil society and businesses. This view is shared by the World Bank.

Since the scholarship scheme began almost 50 years ago as part of the Colombo Plan, it has undergone progressive change. In 1995 AusAID instituted significant changes to the management of the ADS scheme including, for the first time, establishment of a formal contractual relationship between AusAID and Australian tertiary educational institutions.

These reforms were seen as a first step in a longer-term improvement program and involved considerable changes to the day-to-day management of students and the provision of services to students. These changes preceded a further review of the scheme in 1998. This emphasised the need for an enhanced focus on outcomes, performance information and fully competitive tendering.

AusAID agrees with the recommendations of the ANAO performance report. The report is timely and will assist in ensuring that Australia continues to have a high quality scholarship scheme within its aid program which is managed in an efficient, effective and accountable manner.

Key findings

Management of scholarship assistance reforms (Chapter 2)

12. AusAID implemented in 1997 a new training assistance strategy that included entering into contracts with education institutions for training, administration and support services. It also introduced in 1998 the ADS scheme in place of two previous scholarship schemes.

13. The ANAO found that the contractual arrangements have put AusAID's relationship with the institutions on a sounder basis by defining service requirements more precisely and are likely to have achieved cost savings. AusAID estimates savings of $2.9 million per annum, although the ANAO could not verify this amount because of limitations in AusAID's costings. ADS relates scholarship assistance more closely to key development priorities and needs of partner developing countries than did previous schemes. ADS also stipulates high Australian involvement in student selection.

14. AusAID is now considering further changes to ADS management and administration. AusAID can draw upon lessons from implementation of the training assistance strategy to provide for more effective planning and implementation of further changes. In particular, the ANAO found that cost analyses in support of the training assistance reforms were not well documented and did not recognise all costs. There was also limited implementation planning. AusAID would benefit from a more structured monitoring of future reforms, as progress on some elements of the reform strategy, such as developing innovative training activities, has not met original expectations.

Strategic management and support (Chapter 3)

Strategic management

15. AusAID has promulgated for staff and stakeholders a set of guiding principles for scholarship assistance. These principles include a scholarship assistance objective, which is aligned to Australia's overall aid objective. There is no separate objective for ADS assistance, which is the major aid delivery mechanism for training assistance. ADS' focus on in-Australia training makes it significantly different from other scholarship schemes. The specification of an objective for ADS would improve stakeholder understanding of what ADS aims to achieve.

16. The scholarship assistance guiding principles would be improved by indicating the contribution of scholarship assistance to the broader goal for Australian education and training assistance, its integration into aid programs for each country and its role in helping to meet human resource development needs of those countries.

17. AusAID has not articulated operational strategies for ADS, increasing the risk that some critical performance issues might not receive adequate attention. A structured risk analysis has not been undertaken for ADS.

Organisational arrangements

18. AusAID manages ADS through national office sections, overseas posts and State offices. The roles and responsibilities of these units for ADS management have not been clearly defined. This has resulted in inefficiencies in some business processes, such as unnecessary re-working of award variations and differences in services provided to prospective students.

19. While some aspects of the management and delivery of ADS assistance are coordinated by a specialist unit, there has been no coordination of other tasks important to good management of the scheme. These tasks include analysis and reporting of performance and identifying better practice for ADS administration. A strengthened framework for coordination in these areas would contribute to efficient and effective scheme management, without diminishing the primary responsibility of country program sections and overseas posts for the management of ADS assistance at the country level.

Guidance on operating policies

20. Key AusAID guidance in support of ADS management, administration, planning and targetting is not kept up-to-date. While annual guidelines dealing mainly with student placement processes have been provided to overseas posts, the main reference sources were issued in 1994 and 1996, prior to the introduction of the ADS scheme. Enhanced and up-to-date guidance would help AusAID and stakeholders better understand the key features of the ADS scheme and its administrative arrangements. It would also promote more effective decision-making by AusAID to the benefit of scheme outcomes.

Performance information and performance results (Chapter 4)

Performance information

21. AusAID does not have performance indicators to measure the outcomes of ADS in terms of students contributing to their country's development. The ANAO recognises that the measurement of ADS outcomes is difficult because of time lags in returning students making contributions to their country's development, and the difficulty of relating individual efforts to broader economic and other developmental outcomes. It may therefore be more practicable to prepare assessments of intermediate outcomes at the scheme and country aid program level.

22. AusAID does not have performance indicators for measuring ADS outputs, such as students completing their studies and returning home, even though there were such indicators for the previous scholarship schemes that ADS replaced. The development and maintenance of appropriate performance measures would enable trends in scholarship assistance performance to be monitored and reviewed. This is essential not only for accountability purposes but also as a sound basis for future planning.

23. AusAID State offices receive information from education institutions on the status of individual students considered to be at risk of not making satisfactory progress. There are no national performance indicators to monitor overall student progress. While State offices have designed some indicators of contractual performance, the indicators have been developed separately and consequently do not facilitate assessment of education institution performance at the national level. Management information systems do not support information needs effectively in these areas.

24. AusAID has not identified benchmarks that would enable assessment of key aspects of scheme performance, including performance outcomes for ADS students, the contractual performance of education institutions and AusAID's administrative performance. Further, AusAID does not systematically assess the extent to which students are satisfied with ADS service quality. AusAID advised that it is now giving close attention to benchmarking ADS performance with comparable scholarship schemes of other donor countries and student performance information.

Performance results

25. AusAID and partner governments have regarded Australia's scholarship assistance as effective in contributing to the development of

partner developing countries. This view has been supported by AusAID reviews. Given that ADS assistance commenced operation for the 1998 academic year, it is too early to assess ADS performance results. However, management information available for previous scholarship schemes offers some insight into aspects of performance management that warrant attention and should be addressed in the performance information framework for ADS.

26. Some 10 per cent of students assisted under scholarship schemes from 1987–88 to 1996–97 discontinued their studies and another two per cent did not return home. Some countries experienced rates well above these averages, with five countries having had combined rates of discontinuing and not returning home of 20 per cent or higher. AusAID considers that the 12 per cent non-completion rate compares well with the general performance rate for students at Australian institutions.

27. The ANAO observed that rates of loss under the previous scholarship schemes represented a considerable loss in terms of both opportunity cost and the reduced contribution of returning students to the development of their countries. The ANAO estimates a financial loss of ADS assistance of about $5 million in 1998 from students discontinuing studies (where a student discontinues, this is more often in the first year of study) and, in addition, a potential loss of about $3 million from students not returning home. However, it is expected that the magnitude of these potential losses will reduce in future years, as the number of scholarship scheme students has fallen since 1995. Scholarship assistance reforms, including changes to student selection and placement processes under the ADS scheme and contractual arrangements with institutions for the management of student progress and welfare, also have the potential to reduce losses for the future.

28. The ANAO found that about 50 per cent of students required extensions of time at some stage to complete their studies under the previous schemes, adding to scheme costs. Based on an AusAID sample study for students from one major ADS country who completed their studies in 1996 and 1997 and other AusAID student extension data relating to that country, the ANAO estimates that award extensions for the ADS scheme cost about $10–15 million in 1998. It is expected that these additional costs will reduce in future years, due to the fall in the number of scholarship scheme students since 1995. Improved administrative arrangements associated with the ADS scheme and better student performance rates also have the potential to reduce these costs in the future.

Planning for ADS' contribution to country aid and award targetting (Chapter 5)

Country aid programming

29.   The planning and management of the aid program for each developing country, referred to by AusAID as country aid programming, is achieved through various mechanisms, including regular consultative processes with partner country representatives, planning missions and reviews, and the preparation of country aid strategies. The ANAO found that ADS assistance is now an integral part of country aid programming.

30.   Country aid strategy papers prepared by AusAID are intended to provide the basis for planning and coordinating Australia's aid for each partner developing country, generally over a three year planning period. At the time of audit fieldwork, strategies had not been finalised for some countries, notwithstanding criticism in this area by the Simons committee review of Australia's overseas aid program in 1997. AusAID advised that it completed the outstanding country strategy papers in July 1999.

31.   The ANAO found that country strategy papers generally do not provide an adequate analysis of human resource development needs of the partner country, particularly shortages of managerial, professional and technical personnel, and the capacity of the national education system to provide the required training. Such analysis could draw on more detailed analyses of these issues available in partner country and donor agency studies and plans. Nor do country strategy papers provide a clear and well argued rationale for the contribution of ADS, relative to other options for education and training assistance, in meeting the identified needs of the partner country.

32.   AusAID has carried out some general reviews of previous scholarship schemes and some country-level studies. However, it has not undertaken in-depth reviews of the effectiveness of training assistance for some countries that are significant recipients of Australian training. For example, there has been no review of the development impact of the provision of more than 1200 scholarships since 1992 to one major ADS participating country. At current costs, these scholarships represent an investment of some $120 million.

Award targetting

33.   AusAID and counterpart agencies of each ADS participating country determine annually the number and composition of ADS awards to be offered to those countries. This may mean, for example, that a

certain number of scholarships are earmarked for public sector and open awards, for undergraduate and postgraduate studies, and for particular fields of study. Awards in each category are normally offered in equal numbers for men and women. This approach helps focus ADS assistance on the identified human resource development needs and priorities of partner countries.

34. The rationale for proposals regarding the number and composition of ADS awards for particular countries was not adequately supported by AusAID documentation. AusAID should substantiate award targetting proposals to ensure their robustness; provide for appropriate accountability; and enhance the prospects of their acceptance in discussions with partner government agencies and, indeed, the likelihood of successful outcomes from ADS assistance.

35. There is scope to make more effective use of award targetting. In some countries, AusAID has not offered both public sector and open awards, although the ADS scheme envisaged that awards would be offered in both categories where possible. Public category awards were intended to promote public sector institution development while open category awards were to provide opportunities for community groups to contribute to nation building. The ANAO found no clear rationale for AusAID providing only one award category to particular countries. AusAID advised that the varied mix of public sector and open awards is designed to allow flexibility within country aid programs to select the most appropriate award category. This is likely to change from year to year depending on emerging needs.

36. The ANAO observed that there continues to be a strong focus on awards for undergraduate studies for some countries, notwithstanding the increasing capacity of partner countries to meet their own training needs at this level. For one major ADS participating country, almost 80 per cent of students were studying for undergraduate degrees in 1998. It was not evident that the human resource development needs of this country were best addressed through the focus of ADS assistance on undergraduate training. The ANAO also observed that in some cases, priority fields of study for awards have covered very broad sectors such as health and education, rather than being focussed to direct ADS assistance to more specific human resource development needs. Enhanced country strategies, mentioned earlier, would support more focussed targetting in these areas.

Targetting outcomes

37. AusAID has generally not met the gender equity target for ADS awards, with 43 per cent of awards held by women in 1998. Progress towards gender equity in ADS awards for some partner countries is difficult, due to gender imbalance in their public service and tertiary institutions. AusAID advised that provisional 1999 data indicated that measurable gains are being made. Some 49 per cent of the latest ADS intake are women and they now account for 45 per cent of ADS students.

38. The relative distribution of ADS awards across fields of study has a direct impact on the extent to which particular sectors in partner countries benefit from scholarship assistance. The five priority sectors for Australian aid are health, education, infrastructure, rural development and governance. Many ADS awards are in fields of study that correspond to the broad governance sector. Only a relatively small proportion of ADS students (23 per cent) were undertaking studies in education, agriculture and health in 1998. This area warrants further examination by AusAID, to ascertain whether ADS award targeting in country aid programs gives appropriate consideration to these fields of study. AusAID advised that more refined statistical analysis of ADS awards has now been undertaken. Provisional 1999 data indicates that **68** per cent of awards are in the five priority aid sectors, including **26** per cent in education, health and rural development.

Student selection, course advice and award variation (Chapter 6)

Student selection

39. The ADS scheme aimed to introduce one merit-based selection system for each partner country, with a high level of Australian involvement, in place of the systems used to select students under the two previous scholarship schemes. However, one selection system administered by AusAID has not been achieved for each partner country. A single selection process in each country, administered by AusAID, would provide greater assurance that ADS selection is open, fair, and merit-based, as well as efficiently managed. The ANAO found that AusAID-managed selection processes for ADS awards have been satisfactory.

40. AusAID has recently introduced applicant interviewing in one major ADS participating country; in other countries applicants are not usually interviewed. There is not a clear risk management basis for the different approaches. There would be merit in AusAID undertaking a risk assessment and costing of options for interviewing ADS applicants

at final selection stages. Selective interview of applicants on a risk management basis at the final selection stages could provide greater assurance that scholarships are being offered to suitable, high-quality students, particularly in partner countries with above average student discontinuation rates.

41. Official records of the deliberations of the ADS selection committee have not been prepared in every partner country. Appropriate AusAID documentation of selection processes and decisions would enhance the transparency of student selection to the benefit of stakeholders.

42. AusAID has not systematically monitored the performance of ADS selection activities. Overseas posts are not required to prepare country reports on selection rounds. Such reporting could make a significant contribution to the continuous improvement of selection processes. Country program sections have not effectively recorded ADS performance in AusAID's standardised system for monitoring and reporting on aid activities. More systematic and regular use of this monitoring tool could assist management oversight of ADS for better performance.

Course advice

43. Under current scheme arrangements, applicants for ADS awards indicate their choice of course and of Australian education institution. This is an important stage in obtaining effective outcomes from ADS assistance, since poor course selection can adversely affect academic progress and lead to costly award variations.

44. AusAID has not clearly defined its role in assisting ADS applicants to choose courses; the range of support services provided to applicants varies between partner countries. In some countries, AusAID overrides student choices that it regards as inappropriate, while in other countries such choices in the same circumstances are left unaltered. Resource material on institutions and courses held by AusAID at overseas posts is not always complete or current, and it cannot be readily accessed by applicants who live some distance from Australian diplomatic missions.

Award variation

45. AusAID may decide to vary ADS awards, for example, to enable students to extend the time to complete their studies or to transfer to another institution or course. Award variations are common, with AusAID approving one extension for every four students annually. These variations add to scheme costs. AusAID does not routinely produce statistics on the number and cost of award variations, to enable effective performance monitoring of this aspect of ADS award management. As noted earlier, the ANAO estimates that award extensions cost about

$10–15 million in 1998. Some variations could be avoided by improved AusAID administration and institution performance that would minimise extensions resulting from factors such as students being enrolled in inappropriate courses; English language difficulties; and/or poor academic supervision. There would be benefit in AusAID analysing the reasons for award variations to help identify underlying problems in student selection, placement and management.

46. The ANAO found that the merits of many student variations approved by State offices were re-examined by other sections of AusAID. The ANAO also found that AusAID did not have efficient and effective arrangements for disseminating information on award variation rules. There is scope for AusAID to improve award variation administration by streamlining business processes and issuing information more systematically on award variation rules.

Management of contracts with education institutions (Chapter 7)

Contract management

47. AusAID has contracts with more than 40 education institutions to deliver training, administration and support services. Good management of these contractual arrangements is critical to achieving effective outcomes from expenditure on ADS awards ($128 million in 1997–98).

48. AusAID has put in place administrative arrangements for managing the contracts, including the designation of State office staff to manage relations with each institution, consistent with contractual provisions. Relevant AusAID staff were provided with guidance or training in 1997 to help them perform their new duties. The nature and depth of this guidance and training varied between State offices. Given the importance of contract management skills to future performance of the scheme, AusAID should keep under review the adequacy of these staff skill sets.

49. The contractual arrangements with institutions provide a broad framework for monitoring institution performance for contracted services. This includes an annual performance review. Within this broad framework, there are differences in contract management practices between State offices. For example, in some cases AusAID does not provide clear assessment of institution performance against contractual requirements. Greater consistency in monitoring and reviewing key

aspects of institution performance can be achieved while flexibly managing the ongoing relationship with individual institutions to suit their particular circumstances.

50.   AusAID annual performance reviews have identified some areas of inadequate institution performance, particularly relating to academic monitoring of student progress. While AusAID has provided feedback to individual institutions on their contractual performance, it does not have systematic arrangements for promoting wider adoption of good institution practice to the benefit of overall scheme performance. There would be merit in AusAID considering ways of disseminating information that would contribute to better institution practice.

51.   AusAID makes quarterly payments to education institutions for ADS students on the basis of their invoices of estimated expenditure and advices of actual expenditure. The ANAO found that the business processes for checking and reconciling invoices and advices are not efficient, being resource-intensive and hampered by limitations in the management information system for the ADS scheme. AusAID should examine more cost-effective options for streamlining payment and reconciliation business processes for the ADS scheme.

Developing contractual arrangements

52.   AusAID is currently considering options for future contractual arrangements with education institutions for the delivery of training, administration and support services. The development and introduction of further purchasing reforms is a significant challenge for AusAID as the last contract negotiation process was protracted and resource-intensive. The next phases of purchasing reforms may be even more difficult, if it includes a move to more competitive tendering. There would be value in drawing on independent expert advice on contract design and negotiation, and learning from the experiences of other Commonwealth agencies in pursuing similar reform agendas, to achieve more focussed and timely implementation of the next round of reforms.

53.   The standard contract between AusAID and education institutions focusses on the delivery of specified services. It does not specify any performance outcomes that institutions aim to deliver for ADS students through the provision of these services. Better practice in contract design is to identify appropriate target outputs and outcomes in contract documentation. A strong focus on performance outcomes for ADS students in contracts with institutions would provide greater assurance that contractual arrangements promote AusAID's objective for scholarship assistance.

54.   Under the existing contract, AusAID pays education institutions full tuition fees for students. It does not receive a discount to mirror the 9–15 per cent commission of first year tuition fees which education institutions pay agents who recruit private international students. This issue was not pursued by AusAID during the last round of contract negotiations with institutions, because it was seeking to take a gradualist approach to reform. A 10 per cent discount on first year tuition fees for ADS students would represent savings of $1.9 million per annum.

55.   AusAID also pays annual student management fees to institutions totalling some $2.8 million per annum. These fees are substantially higher than AusAID assessed would be reasonable during the last round of contract negotiations, but lower than institutions had originally bid for these services. AusAID has the potential to negotiate a substantial reduction of the cost of these services, based on institutions' experience of service cost and the prospect of a more competitive tendering environment.

Recommendations

Set out below are the ANAO's recommendations aimed at improving AusAID's management of ADS. Report paragraph references and abbreviated AusAID responses are also included. More detailed responses are shown in the body of the report. The ANAO considers that AusAID should give priority to Recommendations 5, 6, 7, 10 and 11.

Recommendation No.1 Para.2.17

Management of scholarship reforms

The ANAO recommends that AusAID enhance the management of any further reforms to the ADS scheme by:

- preparing adequate costings of proposed changes to support the business case for change and provide a basis for monitoring and assessing the achievement of financial benefits; and

- developing and monitoring implementation plans and timetables for key reform components to enable effective project management and provide greater assurance that outcomes are achieved in a timely and cost-effective manner.

AusAID response: Agreed.

Recommendation No.2 Para.3.12

Strategic management

The ANAO recommends that AusAID improve strategic management of ADS assistance by:

- refining the guiding principles of scholarship assistance to reflect its contribution to country aid and Australia's goal for education and training assistance;

- developing operational strategies in support of achieving improved key scheme outputs and outcomes and reducing scheme costs; and

- conducting a structured risk management analysis for ADS to better identify, assess and manage scheme risks.

AusAID response: Agreed.

Recommendation No.3 Para.3.20

Organisational arrangements

The ANAO recommends that AusAID:

- clarify the roles and responsibilities of organisational units with management responsibilities for the ADS scheme; and

- enhance the framework for coordination of ADS management activities in order to improve performance reporting and promulgation of better practice.

AusAID response: Agreed.

Recommendation No.4 Para.3.29

Guidance on policies

The ANAO recommends that AusAID develop and maintain up-to-date guidance on the ADS scheme and promulgate this to AusAID staff and stakeholders to facilitate more effective decision-making.

AusAID response: Agreed.

Recommendation No.5 Para.4.19

Performance information

The ANAO recommends that AusAID develop quality performance information for ADS by:

- determining appropriate performance indicators of outputs and intermediate outcomes and their contribution to desired scheme outcomes;

- ensuring the capabilities of management information systems adequately support the provision of required performance information; and

- utilising internal and, where available, external benchmarks for assessing the performance of key aspects of the ADS scheme, including student outcomes, institution and administrative performance.

AusAID response: Agreed.

Recommendation No.6 Para.5.12

Country aid programming

The ANAO recommends that AusAID:

- ensure country strategy papers present adequate analysis of the human resource development needs of partner countries and of the rationale in support of ADS' contribution to country aid; and

- review at appropriate intervals the effectiveness of training assistance in helping meet the identified development needs of partner countries.

AusAID response: Agreed.

Recommendation No.7 Para.5.36

Award targetting

The ANAO recommends that AusAID:

- effectively record and communicate the rationale for award targetting proposals for ADS assistance to adequately inform negotiations with partner countries and for overall transparency to stakeholders; and

- provide focussed targetting of ADS awards in support of ADS and country aid priorities and targets.

AusAID response: Agreed.

Recommendation No.8 Para.6.16

Student selection

The ANAO recommends that AusAID:

- maintain records, at an appropriate level, of selection processes and selection committee decisions to demonstrate that ADS selection is open, fair and merit-based in accordance with scheme principles; and

- monitor and review ADS selection processes to support performance management and overall accountability.

AusAID response: Agreed.

Recommendation No.9 Para.6.25

Course advice

The ANAO recommends that AusAID:

- enable ADS applicants to indicate an appropriate course preference for study in Australia by providing them with access to adequate information about education institutions and courses; and

- ensure its role in course selection for ADS students is clearly specified to manage appropriately the risk of unsuitable course selection in support of better scheme performance.

AusAID response: Agreed.

Recommendation No.10 Para.7.20

Contract management

The ANAO recommends that AusAID establish consistent contract management practices for monitoring and reviewing institution performance within a framework that permits flexible management of the ongoing relationship with individual institutions to suit their particular circumstances.

AusAID response: Agreed.

Recommendation No.11 Para.7.42

Developing contractual arrangements

The ANAO recommends that, in developing proposals for new contractual arrangements with education institutions, AusAID:

- incorporate agreed performance indicators in future contracts to specify the student performance outcomes that institutions aim to deliver through the provision of contracted services; and

- seek to reduce tuition and management fees for ADS students in future contract negotiations with education institutions to achieve more cost-effective outcomes.

AusAID response: Agreed.

Audit Findings
and Conclusions

1. Introduction

This chapter provides an overview of Australian Development Scholarships (ADS) and administrative arrangements for the management and delivery of ADS assistance. It also outlines the objective, focus and methodology of the audit, as well as the structure of the report.

Australian Development Scholarships

Scholarship assistance is an important element of Australia's overseas aid program

1.1   Australia's overseas aid program aims to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development.

1.2   Education and training is one of five priority sectors for the aid program. Scholarship assistance, which enables students to gain formal qualifications at education institutions, is a major contributor to this priority sector. It has been an important element of Australia's aid program since the 1950s, when scholarships were offered under the Colombo Plan. The current objective of Australian scholarship assistance is to provide people of developing countries with training that facilitates their contribution to the reduction of poverty and the achievement of sustainable development in their country.

1.3   Australian Development Scholarships (ADS) are the principal means by which Australia provides scholarship assistance for study at Australian education institutions. ADS replaced two previous scholarship schemes, Australian Sponsored Training Scholarships (ASTAS) and Australian Development Cooperation Scholarships (ADCOS). The first intake of students under the ADS scheme was in 1998.

1.4   Australian scholarship assistance also includes two schemes which address particular development needs of Pacific countries: Australian Regional Development Scholarships for people of Pacific countries to attend tertiary education institutions in the Pacific region and the Secondary School Students Project for Papua New Guinea students to attend secondary schools in Australia. The management of these schemes is not examined in this audit report because of their specialised nature.

1.5   Figure 1 shows how ADS contributes to the goal of education and training assistance within the overall aid program.

Figure 1
Policy framework

Overall Aid Program	**Australia's Development Cooperation Program** * Objective * Principles (set out in Appendix 1)	

Aid Program Sectoral Priorities

Education and Training
* Goal
* Priority areas
* Underlying principles
(set out in Appendix 1)

Other priority sectors:
* Health
* Infrastructure
* Rural development
* Governance

Broad Categories of Support for Education and Training

Provision of training for individuals from developing countries

Assistance to the education and training sector in developing countries

Forms of Training Assistance

Formal awards (long term scholarships)
* Objective
* Policy principles
* Administrative principles
(set out in Appendix 1)

Customised training

Types of Scholarships

Australian Development Scholarships (ADS)

Australian Regional Development Scholarships (ARDS)

1.6	While scholarship schemes have historically been included under assistance for education and training, the benefits from scholarship assistance have a direct impact in the range of sectors in which students apply their skills, knowledge and qualifications after completing studies in Australia.

Key features of ADS assistance

1.7	While ADS assistance is customised to suit individual country programs, it has some common features that apply to most countries. These are:

- scholarships are generally offered in a public category for nominees of government agencies and private employers, and in an open category for individuals who make direct applications for awards;

- the number of scholarships, and the academic levels and fields of study at which the scholarships are targetted, are determined annually by Australia and each ADS participating country;

- scholarship applicants must usually satisfy general eligibility requirements as well as criteria specific to each country. Country-specific criteria typically include partner country citizenship, English language proficiency and age limit restrictions;

- applicants compete for scholarships through annual selection processes conducted in their home country. A joint selection panel which includes Australian representatives usually selects ADS students on the basis of merit, gender balance and other specified equity principles;

- people awarded scholarships must commence their studies in the following calendar year. The scholarship holders generally undertake full time studies which will lead to the award of a formal qualification at a recognised education institution in Australia;

- Australia pays the academic fees of students and their air travel to and from Australia at the commencement and end of their award. Students are entitled to an establishment allowance upon arrival in Australia and an annual stipend paid fortnightly to meet living expenses; and

- students are expected to complete their courses within the award period, return home and apply their knowledge, skills and qualifications to contribute to the development of their country.

ADS assistance is integrated into country aid programs

1.8	Australia's overseas aid program focusses on the provision of bilateral assistance to designated developing countries. This is complemented by financial contributions to international agencies and programs.

1.9   There are distinctive aid programs for each country, determined and implemented in partnership with the developing country. Country strategies indicate how each country aid program can best alleviate poverty and contribute to sustainable development in that country.

1.10   This approach to country aid programs means that education and training activities are coordinated and managed at the country level. ADS assistance is integrated into this framework and linked to the human resource development plans and strategies developed by each country in conjunction with Australia. The business case for the provision of ADS assistance to any country is assessed against other training needs and opportunities, as well as other feasible aid activities that would meet the development priorities and needs of that country.

1.11   In practice, country aid programs for many partner developing countries identify education and training as a priority sector, and specify ADS assistance as a key aid delivery mechanism. ADS is therefore a significant component of total country aid program expenditure for some countries (see Table 1).

Table 1

ADS expenditure, 1997–98

Country	ADS expenditure	Total country aid program expenditure	ADS expenditure % total country aid program expenditure
Indonesia	$22.5m	$80.4m	28%
Vietnam	$16.1m	$53.0m	30%
Papua New Guinea (a)	$11.9m	$191.4m	6%
Philippines	$9.3m	$51.2m	18%
Thailand	$7.9m	$16.5m	48%
Fiji	$6.4m	$18.2m	35%
China	$6.0m	$36.6m	16%
India	$5.4m	$12.9m	42%
Laos	$3.3m	$13.8m	24%
Other countries	$39.2m	$159.5m	25%
All countries (a)	$128.0m	$633.5m	20%

Source: Compiled from AusAID statistics

Note (a): Total country aid program expenditure for Papua New Guinea (PNG) excludes expenditure on budget support and retirement benefits totalling $122.1 million. Budget support for PNG will be phased out in 1999–2000.

1.12   ADS expenditure in 1997–98 represented some 20 per cent of total country aid program expenditure (excluding PNG budgetary support and retirement benefits). It accounted for about nine per cent of the total aid budget, including all country, regional and global program assistance and associated running costs.

Administrative arrangements for ADS assistance

1.13 ADS assistance is managed by the Australian Agency for International Development (AusAID). AusAID is an agency within the Department of Foreign Affairs and Trade but operates independently of the Department as a prescribed agency under the *Financial Management and Accountability Act 1997.*

1.14 The AusAID Student Program Section, country program sections, State offices and overseas posts in ADS participating countries have functional responsibilities for ADS management and administration. These are described in more detail in Chapter 3.

1.15 There have been major changes to administrative arrangements for scholarship assistance since 1995; these changes include:

- the introduction of contractual arrangements for Australian education institutions;
- the outsourcing of support services for ADS students to education institutions accompanied by the downsizing of AusAID State offices, which previously had carriage of student welfare functions;
- the transfer of the responsibility for placing ADS students at Australian education institutions from Australia to overseas posts; and
- the appointment of managing contractors to administer ADS assistance in two major ADS participating countries (Indonesia and Papua New Guinea).

1.16 AusAID is now actively considering options for recasting contractual arrangements with education institutions and for re-engineering key ADS business processes, including arrangements for placement of ADS students at Australian education institutions.

Operating environment

1.17 The major stakeholders in ADS are partner governments and agencies, Australian education institutions, overseas posts and overseas managing contractors, as well as ADS applicants, and current and past scholarship holders.

1.18 There are several external factors that can have a significant impact on AusAID's management and administration of ADS assistance. These include:

- ADS assistance is provided to developing countries with a wide range of human resource development needs. The tailoring of ADS assistance to help meet the particular needs of each country is a major challenge for AusAID;

- partner country agencies will have their own policy orientations and imperatives in relation to scholarship assistance. Some of these agencies are still developing their institutional capability to contribute effectively to the aid partnership with Australia; and

- the aspirations, capacities and performance of ADS students can greatly affect whether ADS assistance enables them to gain skills, knowledge and qualifications in order to make a positive contribution to the development of their home country.

Profile of ADS students

1.19   Australia provided ADS assistance to 3733 students at Australian education institutions in 1998. The number of scholarships has fallen since 1995 (see Figure 2).

Figure 2

ADS and predecessor scholarship scheme students in Australia, 1990–1998
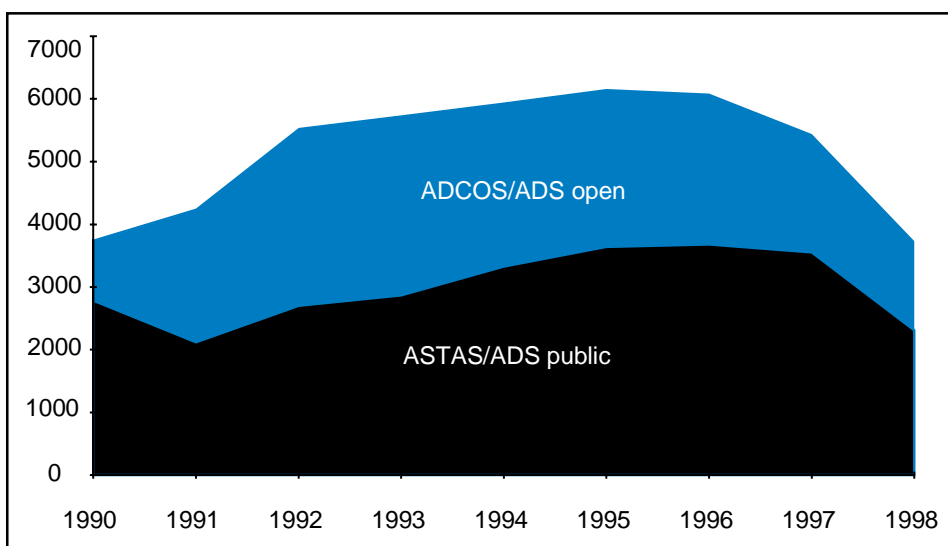
Source: Compiled from AusAID statistics

Note:

(a) Statistics are annual snapshot figures. The reporting date has changed over the time period.

(b) The first ADS intake was in 1998. ASTAS and ADCOS were introduced in 1993 in place of earlier scholarship arrangements.

1.20   Some 50 developing countries had ADS students in Australia in 1998, with nine countries having more than 100 ADS students. Figure 3 summarises the country of origin of ADS students, with more detailed statistics at Appendix 2.

Figure 3
ADS students, 1998
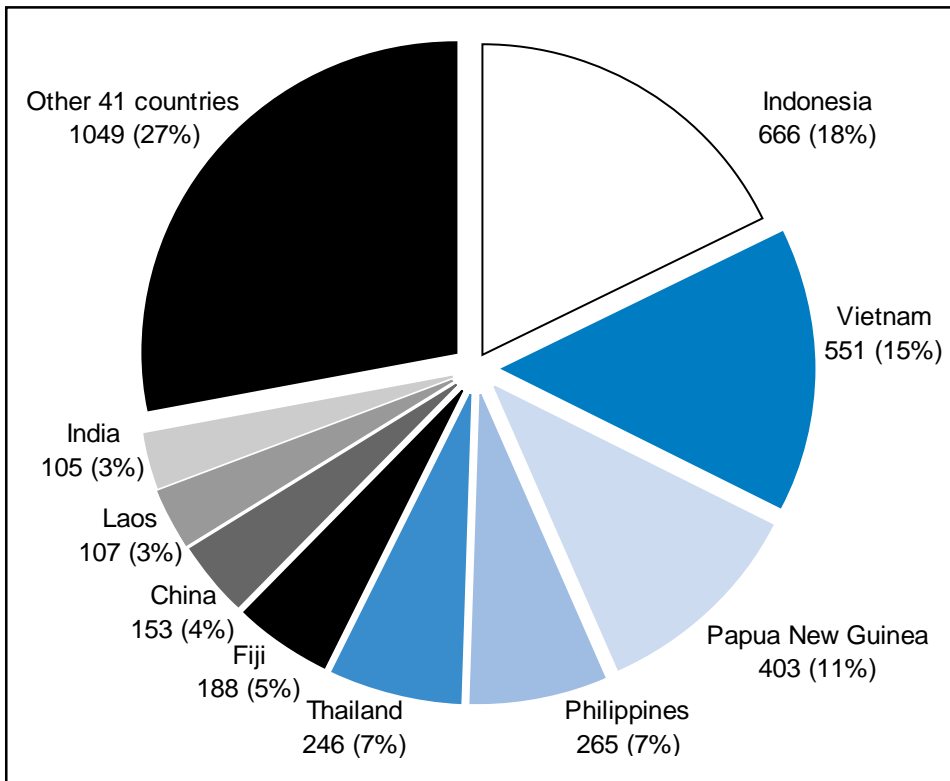
Source: Compiled from AusAID statistics

1.21 Some of the characteristics of ADS students are summarised in Table 2.

Table 2

Characteristics of ADS students, 1998

Characteristics of students and their studies	Average for all countries	Average for nine major ADS countries	Range for major ADS countries	
			Low	High
Gender				
Women	43%	42%	32%	52%
Men	57%	58%	48%	68%
Age				
Median age range (years)	26–30	26–30	21–25	36–40
Aged 41 years and older	8%	8%	2%	25%
Award category				
Public (govt. or private employer nominee)	62%	66%	36%	79%
Open (individual applicant)	38%	34%	21%	64%
Major academic level of study				
Undergraduate degrees	38%	34%	0%	79%
Masters degrees	36%	38%	9%	52%
Doctorate studies	15%	19%	1%	54%
TAFE and technical colleges, diplomas, etc	11%	9%	0%	35%
Major fields of study				
Economics, business and administration	26%	26%	12%	43%
Natural sciences	18%	19%	9%	24%
Engineering	17%	17%	10%	32%
Other	39%	38%	29%	48%

Source: Compiled from AusAID statistics

Note: Major ADS countries are defined here as countries with more than 100 ADS students in Australia in 1998.

1.22 The average direct cost of ADS awards is about $100 000 per student over the award period. Direct costs include student stipends, course fees and other expenses met by AusAID.

The audit

Audit objective, focus and criteria

1.23 The objective of the audit was to evaluate AusAID's management of the ADS scheme, particularly:

- strategic and performance management of the ADS scheme;

- the provision of ADS assistance to partner developing countries; and

- the management of contractual arrangements with Australian education institutions.

1.24 The criteria for the audit were derived from recognised good practice for program design and management, contract management, performance measurement and benchmarks set by previous ANAO audits. They are summarised in Appendix 3.

Audit methodology

1.25 The audit was conducted in accordance with ANAO auditing standards. The cost of the audit to report tabling was $375 000.

1.26 Audit fieldwork was undertaken in AusAID's national office in Canberra, State offices in Sydney and Melbourne, and overseas posts in Hanoi and Port Moresby.

1.27 The ANAO reviewed relevant AusAID documentation and management information and interviewed key AusAID staff. The audit included an examination of case studies of ADS assistance to selected developing countries; the management of contracts with a number of education institutions; and the administration of a sample of cases of ADS students at risk of not completing their studies on time or not returning to their home country.

1.28 The ANAO consulted with some ADS stakeholders, including senior partner country agency officials, overseas managing contractor personnel and Australian education institution representatives.

AusAID review

1.29 Concurrent with the audit, AusAID commissioned a review to assess the impact of recent changes to management of ADS, and to establish whether further changes were desirable.[1] The ANAO had regard to the AusAID review in planning and conduct of the audit and in preparing this report.

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[1]   AusAID, *The Administration of Australian Development Scholarships: Management Review*, February 1999, prepared for AusAID by Kai Detto, Tim Jones and Kaye Schofield.

Report structure

1.30   Figure 4 provides an overview of the structure of this report.

Figure 4
Report structure
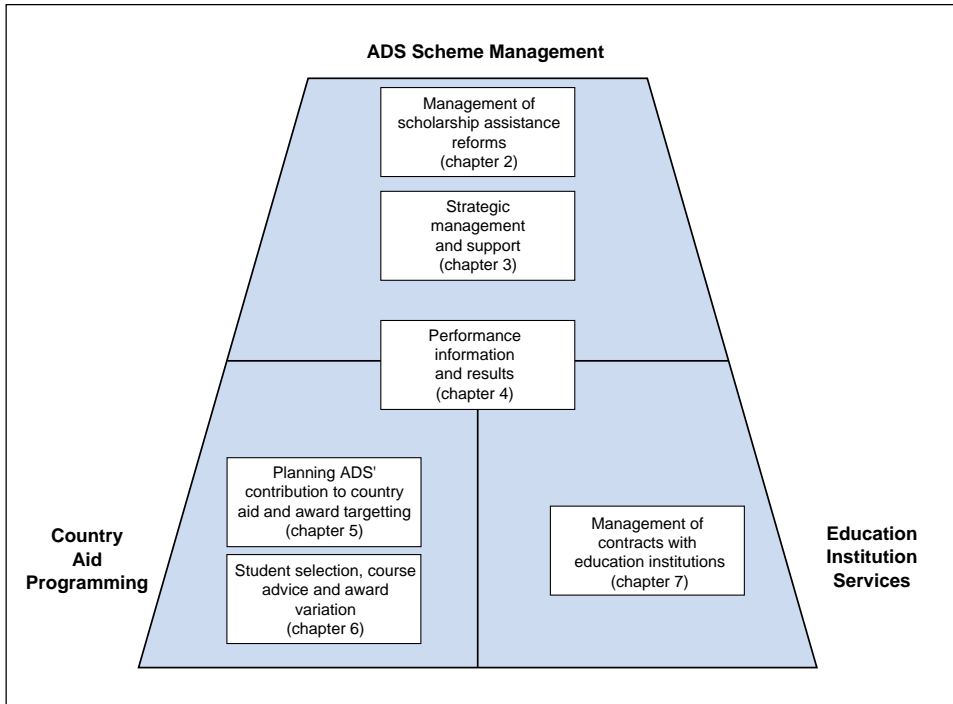
2. Management of Scholarship Assistance Reforms

This chapter examines AusAID's planning and implementation of major scholarship assistance reforms since 1995 and its current consideration of further reform options.

Scholarship assistance reforms

Training assistance reforms initiated in 1995

2.1   AusAID developed in 1995 a new strategy for the delivery of training assistance, to improve the quality of training assistance and make more efficient use of resources. Cost savings were expected, but were not the main driver for the reforms.

2.2   The strategy proposed that AusAID enter into contracts with Australian education institutions for services for AusAID students; reduce State office involvement in student case administration; and integrate training assistance more effectively into country aid programs.

2.3   AusAID consulted extensively with Australian education institutions in the process of developing and implementing the proposals. It also consulted widely with staff. The Minister for Development Cooperation and Pacific Island Affairs and the Minister for Foreign Affairs approved the proposed changes.

2.4   The contractual arrangements with education institutions were introduced in 1997 for the final student intake under the ASTAS and ADCOS scholarship schemes and have continued under the ADS scheme.

2.5   AusAID completed a review of the ADCOS scholarship scheme in 1995 and developed the proposal for the establishment of ADS, which was approved by the Minister for Foreign Affairs in 1996. The proposal recognised that the previous scholarship schemes had not had a sufficiently tight focus and had not related as closely as they could to key development priorities of partner developing countries. AusAID expected that ADS, which commenced in 1998, would deliver more effective scholarship assistance and realise some cost savings. A key design feature of the new scheme was the requirement for high Australian involvement in the selection process.

More comprehensive cost analysis and implementation plans would be better practice for future reforms

2.6   While many aspects of the case for training assistance reform were well set out, AusAID did not prepare adequately documented cost analyses and detailed implementation plans for the reform package. For example, some substantial costs associated with the proposed changes, such as the installation of a new management information system, were not identified in costings. The preparation of more comprehensive costings and implementation plans would be better practice for future reforms. This would provide better support to the business case for change, enable effective project management and provide greater assurance that proposals are likely to be cost-effective and achieve the desired outcomes in a timely manner.

Contracts with education institutions strengthen scholarship administration

2.7   By entering into contracts with education institutions for training, administration and support services, AusAID put its relationship with the institutions on a sounder basis. The contracts define service requirements more precisely and require that education institutions focus on the scope of the services to be provided and the resources necessary for those services.

2.8   AusAID's pursuit of a gradualist approach to change helped to gain institutions' acceptance of the new contractual arrangements. AusAID invited institutions to submit proposals for services and then negotiated with individual institutions, particularly in respect of their management fee. It did not require institutions to bid against each other competitively for student places. Nor did it use the tender process to exclude institutions from the delivery of scholarship assistance. At the time the new strategy for the delivery of training assistance was developed, the introduction of a fully competitive tendering system was regarded by AusAID as a possible future option. AusAID also introduced performance monitoring arrangements with the contracted institutions as a cooperative commitment to improving service quality.

2.9   AusAID estimates that annual cost savings of $2.9 million have been achieved under the new contractual arrangements. The ANAO found that, while savings are likely to have been achieved, the magnitude of the claimed savings could not be verified, as the basis of the AusAID calculations was not clearly documented and some costs associated with the new scheme were not recognised in the calculations. Further, part of the apparent savings appear to be attributable to the contraction of student numbers since 1996, which reduces AusAID expenditure on management fees to institutions.

Limited progress in implementing some elements of the new training strategy

2.10 AusAID proposed, as part of the 1995 training assistance reforms, to develop innovative country-specific training activities including distance education and mixed mode training. It also proposed to define new roles for State offices in managing training projects. In focussing on the introduction of contracts with the institutions, AusAID gave limited attention to these elements of planned reforms and has not achieved expected improvements in these areas. These elements of the planned reforms were aimed at achieving more cost-effective training assistance. For example, innovative options for training in partner countries have considerable potential benefits, since locally based training is estimated to cost one-third of equivalent training in Australia.

Further reforms are now under consideration

2.11 AusAID expects to continue and enhance ADS reforms. The commissioning of the independent review of ADS administration, which reported in February 1999, was part of this process. The review found that the overall direction of the reforms to scholarship management was consistent with best practice. It concluded that gains in efficiency and effectiveness had been achieved, but could not be readily quantified.

2.12 The review identified some areas where reform results had fallen short and made a case for further reforms. In particular, it recommended the establishment of fully competitive tendering and contracting arrangements for the ADS scheme, the management of ADS within an integrated performance management framework, the re-development of the ADS management information system to support performance management, and the clarification of roles and responsibilities for ADS within AusAID.

2.13 AusAID is now considering possible changes to ADS management and administration arising out of the review report, as well as the findings and recommendations of this audit report.

Conclusion—management of scholarship assistance reforms

2.14 The ANAO concludes that AusAID has achieved significant reform of the delivery of scholarship assistance through the development and implementation of the new training assistance strategy and the introduction of ADS.

2.15 The contractual arrangements put AusAID's relationship with the institutions on a sounder basis by defining service requirements more precisely and are likely to have produced some cost savings (although

these cannot be verified because of limitations in AusAID's costings). ADS relates scholarship assistance more closely to the relevant development priorities and needs of partner countries than did previous schemes. ADS also stipulates high Australian involvement in student selection.

2.16 AusAID is now considering further changes to ADS management and administration. AusAID can draw upon lessons from implementation of the training assistance strategy to provide for more effective planning and implementation of further changes. In particular, cost analyses in support of the training assistance reforms were not well documented and did not recognise all costs. There was also limited implementation planning. AusAID would benefit from a more structured monitoring of future reforms, as progress on some elements of the reform strategy, such as developing innovative training activities, has not met original expectations.

Recommendation No.1

2.17 The ANAO recommends that AusAID enhance the management of any further reforms to the ADS scheme by:

- preparing adequate costings of proposed changes to support the business case for change and provide a basis for monitoring and assessing the achievement of financial benefits; and

- developing and monitoring implementation plans and timetables for key reform components to enable effective project management and provide greater assurance that outcomes are achieved in a timely and cost-effective manner.

AusAID response

2.18 Agreed:

- Costings were prepared as part of AusAID's consideration of options for the next round of ADS management reforms. Other baseline data will be developed to monitor and assess benefits of the new management arrangements.

- Initial schedules were prepared in developing options for the next round of reforms. More detailed plans and timetables will be prepared as part of the planning process and will assist in monitoring and reporting on implementation of the new management arrangements.

3. Strategic Management and Support

This chapter examines the ongoing strategic management of the ADS scheme, organisational arrangements for ADS administration, AusAID's guidance on operating policies for ADS planning, management and administration, as well as aspects of the benefits structure for ADS students.

Strategic management

Refinement of the guiding principles for scholarship assistance would strengthen performance management

3.1   Good practice in performance management emphasises the importance of identifying the overall hierarchy of objectives for programs and activities, with an alignment of objectives throughout these levels. The outputs and outcomes, as well as the inputs, of programs and activities should be defined.

3.2   AusAID has promulgated for staff and stakeholders a set of guiding principles for scholarship assistance.[2] The principles state that the objective of scholarship assistance is:

To provide to people of developing countries training which facilitates their contribution to the reduction of poverty and the achievement of sustainable development in their country.

3.3   The ANAO found that this objective is aligned to Australia's overall aid objective.[3] However, the guiding principles do not indicate that scholarship assistance also contributes to the broader goal of Australian education and training assistance, and that the planning and management of scholarship assistance is integrated into the aid program for each partner developing country. There would be merit in reflecting this role for scholarship assistance in the guiding principles, for example, by stating in the objective that scholarship assistance is provided to help meet the human resource development needs of partner developing countries.

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[2]   The guiding principles for scholarship assistance are at Appendix 1.

[3]   See Appendix 1 for reference to Australia's overall aid objective and the goal of Australian education and training assistance.

3.4 The guiding principles do not specify the key outputs of scholarship assistance such as students' acquisition of skills, knowledge and qualifications. Further, the only input mentioned is the provision of training; thus inputs such as benefit support and student support services are not addressed. Performance management would be strengthened by recognising the outputs and inputs of scholarship assistance in the guiding principles. This would help to provide a clear actionable and measurable statement of what is to be achieved by the provision of scholarship assistance.

A separate objective for ADS would have benefits

3.5 While there is an overall scholarship assistance objective, there is no specific objective for ADS assistance. AusAID's view is that it is appropriate to have a broad objective for all forms of scholarship assistance, with specific objectives being set for particular scholarship assistance activities at the country level.

3.6 However, ADS is the major aid delivery mechanism for providing training assistance, and its focus on in-Australia tertiary training makes it significantly different from other scholarship schemes. In the ANAO's view, the specification of a separate ADS objective would have benefits, including improving the understanding of stakeholders of what ADS aims to achieve. In particular it could make clear that ADS awards are primarily intended to contribute to the development of partner countries, rather than to benefit individual scholarship holders. In this context the ANAO notes that ADCOS, one of the schemes which ADS replaced, had its own objective.

Operational strategies should be developed for ADS

3.7 AusAID has not formally articulated specific operational strategies for ADS, other than the broader strategy for the delivery of training assistance outlined above. This increases the risk that some critical performance issues will not be addressed adequately, or that inappropriate resources will be applied to those issues. In this context Chapter 4 identifies some additional aspects of scheme performance which may be improved. The ANAO considers that AusAID would benefit from formal operational strategies for ADS, in support of effective performance management.

AusAID should undertake a structured risk analysis for ADS

3.8 AusAID has identified, as part of its country aid strategies, general country-level risks that could affect aid delivery and AusAID staff who administer ADS assistance have some knowledge of specific ADS risks. However, the ANAO considers that reliance on staff awareness of ADS

risks does not provide adequate assurance that risk is being well-managed. A comprehensive risk analysis for the ADS scheme, in accordance with accepted risk management practices, would provide a more systematic approach to risk management. This would seem to be of particular value given that there are potentially significant risk areas associated with ADS.

Conclusion—strategic management

3.9 The ANAO concludes that there is scope for AusAID to strengthen strategic management of ADS, to help ensure that Agency efforts are directed and coordinated towards the achievement of desired outcomes.

3.10 The specification of an objective for ADS would improve stakeholder understanding of what ADS aims to achieve. The scholarship assistance guiding principles would be improved by indicating the contribution of scholarship assistance to the broader goal for Australian education and training assistance, its integration into aid programs for each country and its role in helping to meet human resource development needs of those countries.

3.11 AusAID has not articulated operational strategies for ADS, increasing the risk that some critical performance issues might not receive adequate attention. A structured risk analysis has not been undertaken for ADS, although there is some staff knowledge of ADS risks.

Recommendation No.2

3.12 The ANAO recommends that AusAID improve strategic management of ADS assistance by:

- refining the guiding principles of scholarship assistance to reflect its contribution to country aid and Australia's goal for education and training assistance;

- developing operational strategies in support of achieving improved key scheme outputs and outcomes and reducing scheme costs; and

- conducting a structured risk management analysis for ADS to better identify, assess and manage scheme risks.

AusAID response

3.13 Agreed:

- The guiding principles reflect the need for training assistance to meet country program sector objectives.

- ADS operational strategies will be developed as part of the planning and implementation of the recently approved ADS management reforms

to help achieve scheme outputs. Contracting strategies are being formulated to help ensure the Commonwealth receives value for money in purchasing courses and student support services.
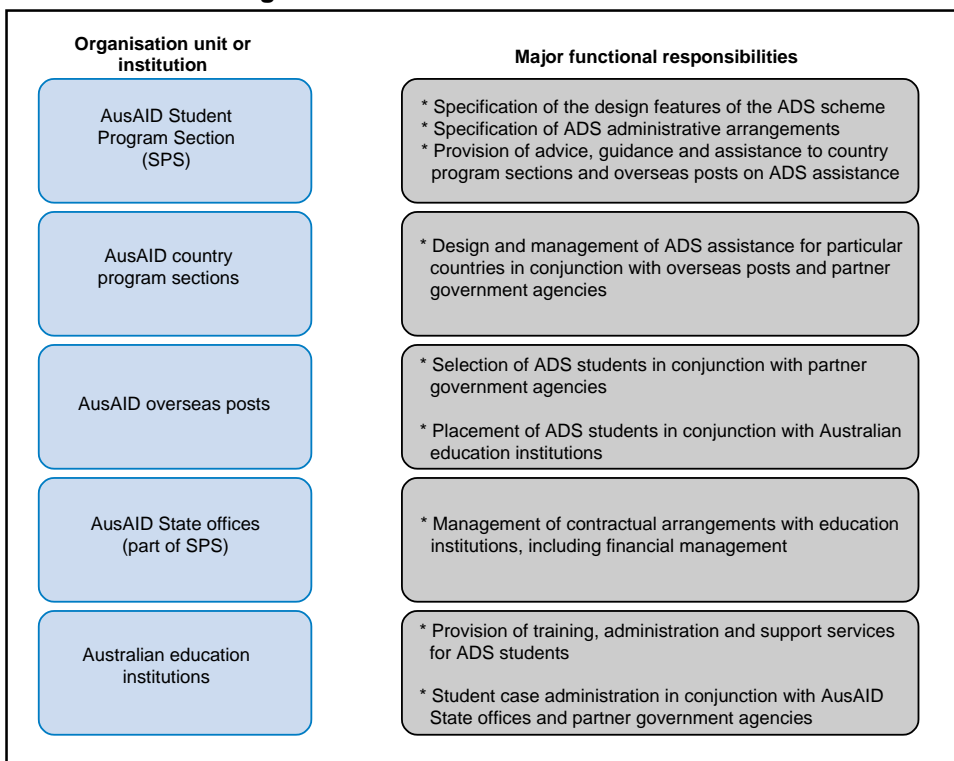
• AusAID acknowledges the need to prepare a risk management assessment for the ADS scheme. This will also contribute to a wider review of AusAID's risk management policy and procedures.

Organisational arrangements

Roles and responsibilities for ADS management should be clarified

3.14 ADS assistance is managed by several AusAID organisational units. The responsibilities of AusAID and institutions for aspects of ADS management and administration are summarised in Figure 5.

Figure 5
Administrative arrangements

Organisation unit or institution	Major functional responsibilities
AusAID Student Program Section (SPS)	* Specification of the design features of the ADS scheme * Specification of ADS administrative arrangements * Provision of advice, guidance and assistance to country program sections and overseas posts on ADS assistance
AusAID country program sections	* Design and management of ADS assistance for particular countries in conjunction with overseas posts and partner government agencies
AusAID overseas posts	* Selection of ADS students in conjunction with partner government agencies * Placement of ADS students in conjunction with Australian education institutions
AusAID State offices (part of SPS)	* Management of contractual arrangements with education institutions, including financial management
Australian education institutions	* Provision of training, administration and support services for ADS students * Student case administration in conjunction with AusAID State offices and partner government agencies

3.15 The scope of student administration and support services provided by education institutions is specified in their contractual arrangements with AusAID. However, the respective responsibilities of AusAID units for some ADS business processes are not clearly defined,

resulting in some uncertainty by staff and inefficiencies in scheme administration. For example, student placements undertaken by overseas posts, and award variations approved by State offices, have been subjected to checking or re-work by other AusAID units, even though it is not their responsibility. Further, the nature and extent of advice provided by overseas posts to prospective students on suitable courses and institutions varies between posts, and this could lead to different course selection outcomes for students in the same circumstances. (These processes are discussed further in Chapter 6). It would be better management practice to define the roles and responsibilities of AusAID units, such as in an authoritative responsibility and accountability statement, to avoid such inefficiencies.

Coordination could be strengthened

3.16   AusAID coordinates some aspects of the management of ADS, including the development of operational policies; specification of the timetable for the annual student intake; ADS publications; and general advice and support for State offices and overseas posts. These tasks are undertaken by the Student Program Section (SPS).

3.17   There has been no coordination of other tasks important to good management of the scheme. These include developing options for innovative scholarship assistance and other forms of training assistance, analysis and reporting of ADS performance, and identifying better practice. There has been little action in these areas in country aid programs. A strengthened framework for coordination in these areas would contribute to efficient and effective scheme management, without diminishing the primary responsibility of country program sections and overseas posts for the management of ADS assistance at the country level.

Conclusion—organisational arrangements

3.18   The ANAO concludes that there are opportunities for AusAID to improve the organisational arrangements for ADS management. The roles and responsibilities of the units that manage ADS have not been clearly defined, resulting in inefficiencies in some business processes, such as unnecessary re-working of award variations.

3.19   The SPS has provided coordination and support services for some aspects of the management and delivery of ADS assistance. The framework for coordination could be strengthened in several areas including analysis and reporting of performance, and identifying better practice for ADS administration.

Recommendation No.3

3.20   The ANAO recommends that AusAID:

• clarify the roles and responsibilities of organisational units with management responsibilities for the ADS scheme; and

• enhance the framework for coordination of ADS management activities in order to improve performance reporting and promulgation of better practice.

AusAID response

3.21   Agreed:

• Responsibilities for ADS under the new management arrangements are being determined.

• Action commenced to centralise the management of the ADS scheme in order to improve policy coherence and delivery efficiency.

Guidance on operating policies

An ADS reference guide would assist scheme administration

3.22   Sound documentation of operating policies supports quality planning and consistent administration and decision-making. It is good practice to keep such guidance up-to-date and in a format convenient to users.

3.23   The ANAO found that AusAID does not have a current general reference guide to assist ADS management and administration. AusAID staff and stakeholders are relying on an out-of-date program operations guide (issued 1994) and an outdated handbook for education institutions (issued 1996) as their main reference sources.[4] Overseas posts also have been issued with annual guidelines dealing mainly with student placement processes.

3.24   The two main guides deal with the administrative arrangements that applied to the two previous scholarship schemes. The handbook has not been revised because AusAID made a commitment to the education institutions that it would not be changed without consultation. AusAID has provided the institutions with ad hoc advice on some matters to supplement outdated guidance in the handbook.

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[4]   Australian International Development Assistance Bureau, *AIDAB Programs Operations Guide Volume 4 Training Programs (APOG4)*, 1994 and AusAID, *Handbook for Institutions. A Guide to AusAID Scholarship Management*, May 1996. AusAID's predecessor, AIDAB, designed the APOG series of publications primarily as staff reference guides. The publications were also issued to stakeholders, including partner governments and organisations doing business with AIDAB.

3.25   AusAID has produced a guide to assist with planning aid activities in the education and training sector.[5] However, country program sections and overseas posts have not been provided with specific guidance to help them to determine whether particular human resource development needs would be best addressed through ADS. Guidance on selecting training assistance options would help ensure that ADS is used to deliver training where it will have maximum development impact on partner countries at minimum cost and acceptable risk.

3.26   The ANAO also found that there is little practical guidance for country program sections and overseas posts on targeting ADS awards at the country aid program level. ADS awards are most likely to achieve the desired outcomes if award categories, apportionment between categories, eligibility requirements and selection and ranking criteria are well targetted to outcomes. There would be merit in AusAID identifying good practice in award targeting at the country aid program level and providing this advice to country program sections and overseas posts.

3.27   The preparation of reference guidance addressing the needs identified above would help parties better understand the key features of the ADS scheme and its administrative arrangements. It would also promote more effective scheme planning, administration and decision-making by AusAID to the benefit of scheme outcomes. The maintenance of guidance in electronic format would provide for convenient user access and increased ability to keep the guidance up-to-date.

Conclusion – guidance on operating policies

3.28   The ANAO concludes that AusAID does not have up-to-date guidance in support of ADS management and administration. Enhanced and up-to-date guidance would improve stakeholder understanding of the scheme and promote more effective decision-making. Guidance should address in particular the selection of training assistance options and targetting of awards.

Recommendation No.4

3.29   The ANAO recommends that AusAID develop and maintain up-to-date guidance on the ADS scheme and promulgate this to AusAID staff and stakeholders to facilitate more effective decision-making.

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[5]   AusAID, *Education and Training Activity Options for Country Programming*, April 1998.

3.30   Agreed. AusAID will update its manual of procedures to provide more relevant and systematic guidance for its managers and other stakeholders, including partner governments and Australian educational institutions.

Benefits for students

The ADS benefits structure could be reviewed periodically

3.31   ADS has a relatively simple benefits structure, with students entitled to an annual stipend paid fortnightly and an establishment allowance. The stipend rate is linked to other Australian academic award stipends and is adjusted annually for consumer price index changes. There has not been an in-depth review of the benefits structure since it was implemented some years ago, before the ADS scheme came into existence. Good management practice would be to review periodically the benefits structure to ensure that it continues to support scheme objectives appropriately.

3.32   A feature of the benefits structure is that ADS students are permitted to bring their families to Australia, provided that partner countries approve these arrangements. About 25 per cent of scholarship holders were officially accompanied by one or more dependents in 1997. AusAID pays an additional stipend of $5400 per year to the accompanied student, representing an estimated annual cost of some $5 million per annum. Given the magnitude of this expenditure, there could be merit in AusAID providing other options for the maintenance of family life, such as financial contributions to the cost of student reunion visits, as an alternative to financial support for family accompaniment. These options might better meet the needs of some students and be cost advantageous for AusAID.

3.33   The ANAO concludes that there would be benefit in AusAID periodically undertaking an in-depth review of ADS benefits.

4. Performance Information and Results

This chapter examines performance information for ADS management, including ADS performance indicators, management information systems and performance benchmarking. It also reviews the performance results of previous scholarship schemes and estimates the possible financial cost of students discontinuing their studies, not returning home or requiring award extensions, if previous performance rates are continuing under ADS.

Performance information

4.1 Performance information enables an agency to measure and manage performance in terms of effectiveness, efficiency and service quality. Good practice in performance management suggests that an agency define performance measures for the outputs and outcomes of its activities, collect essential performance information efficiently and assess performance against suitable benchmarks.

ADS outputs and outcomes are not measured

4.2 AusAID does not have performance indicators for measuring the outcomes of ADS in terms of students contributing to their country's development.

4.3 The ANAO recognises that measurement of ADS outcomes is difficult because of time lags in returning students making contributions to their country's development, and the difficulty of relating individual efforts to broader economic and other developmental outcomes. It may therefore be more practicable to prepare regular assessments of intermediate ADS outcomes at the scheme and country aid program level, based on reports received from overseas posts, partner countries or development assistance experts. In the ANAO's view, AusAID should give consideration to the introduction of such measures.

4.4 AusAID does not have performance indicators for measuring ADS outputs, such as students' completion of their studies and return to their home country, even though there were such indicators for the previous scholarship schemes that ADS replaced. The development and maintenance of appropriate performance measures would enable trends in scholarship assistance performance to be monitored and reviewed. This is essential not only for accountability purposes but also as a sound basis for future planning.

4.5 AusAID did undertake some preliminary consideration of measures of the effectiveness and efficiency of scholarship assistance in 1997, but consideration of these issues has not proceeded further. The ANAO considers that the previous measures have merit and that reinstating them would assist in management of the scheme, pending the development of improved performance indicators.

National performance indicators addressing student progress and education institution performance could be developed

4.6 AusAID State offices receive information from education institutions on the status of individual students considered to be at risk of not making satisfactory academic progress, but there are no national performance indicators to monitor overall student progress. There would be merit in AusAID adopting suitable indicators that would enable comparison of performance with other segments of the Australian tertiary student population. Student Progress Unit analysis, which measures arithmetic ratios and statistical means of units of study passed relative to the total load of units of study, is one approach that warrants consideration.[6]

4.7 Some indicators have been developed at the State office level for measuring the contractual performance of local institutions in providing training, administration and support services. These indicators include the accuracy of invoicing, the timeliness and quality of requests for award variation, and the timeliness of general reports. Separate State office performance measures do not facilitate the assessment of education institution performance at the national level, which is important to achieving the required overall outcomes from the contractual arrangements. There is potential for AusAID to build on the experience of local assessment systems to develop national indicators of institution performance, in consultation with the institutions.

Systems do not support performance information needs effectively

4.8 AusAID maintains information on ADS performance in a range of systems, including the management information system for the ADS scheme—the Student Information Management System (SIMS), local databases, spreadsheets and other record systems. However, these

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[6] Ian Dobson, Raj Sharma and Anthony Haydon, 'Undergraduates in Australian Universities: Enrolment Trends and Performance of Commencing Students 1993-1996', Australian Vice-Chancellors' Committee, 1997, p.8 and p.33 for reference to the SPU concept.

systems are not designed to support AusAID's performance information requirements for aggregated data in three key results areas: student academic progress; the performance of education institutions; and AusAID's administrative performance.

4.9 SIMS holds the records of individual student academic progress provided by institutions, but this information is not available in a format suitable for aggregate performance monitoring for ADS students. Some AusAID units have kept local spreadsheet records of award extension cases, to monitor the incidence, cost or circumstances of these cases. However, these records cannot be readily used to analyse performance.

4.10 AusAID has narrative reports on the contractual performance of individual education institutions. However, differences between State offices in the design of these systems mean that national data cannot be compiled from these reports.

4.11 AusAID systems do not record the direct and indirect costs associated with ADS scheme administration, to help identify the full costs of scheme operations.

Suitable ADS performance benchmarks have not been identified

4.12 Sound performance assessment is based on comparison against pre-defined standards, targets or benchmarks. The ANAO found that AusAID has not identified benchmarks that would enable assessment of key aspects of ADS scheme performance, including performance outcomes for ADS students, the contractual performance of education institutions and AusAID's administrative performance. Potential sources of such comparisons include other development assistance agencies or international organisations that provide similar scholarship assistance, and general student performance at Australian and overseas education institutions.

4.13 The ANAO also found that although some information on overseas scholarship schemes was obtained as part of a review of the ADCOS scheme in 1995, there has not been regular benchmarking of design features and administrative arrangements. Regular benchmarking could help AusAID identify better practice for the scheme from overseas sources.

4.14 AusAID advised that it is now giving close attention to benchmarking ADS performance with comparable scholarship schemes of other donor countries and student performance information.

Satisfaction with service quality is not systematically measured

4.15   Some information on the views of returned students about their scholarship experience has been collected in the past in a number of tracer studies[7] of former scholarship holders, and in several general reviews of scholarship assistance. While tracer studies can provide useful insights, this approach does not provide systematic assessment of the level of satisfaction of ADS students with the quality of service provided by AusAID or education institutions.

4.16   Good practice suggests that AusAID should measure ongoing student satisfaction with ADS assistance using client survey methods. Particular aspects of ADS assistance that could be covered in surveys include student selection and placement processes, benefit support for students and the provision of training, administration and support services at education institutions. This would provide valuable information on the perceived capability of the scheme and associated services to meet student needs and expectations and through this, insight into ADS' effectiveness in meeting aid objectives.

More comprehensive ADS statistical information and analysis would be useful

4.17   AusAID publishes an annual statistical profile of ADS students.[8] More comprehensive and detailed statistics, as well as additional accompanying analysis of the ADS student population and ADS performance, would improve the value of this publication to AusAID and stakeholders. It would also enhance AusAID's accountability for scheme performance.

Conclusion—performance information

4.18   The ANAO concludes that ADS performance information is not adequate to support sound performance management of the ADS scheme. AusAID should seek to strengthen its performance information framework for the ADS scheme, to help measure the extent to which ADS is achieving desired outputs and outcomes.

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[7]   Tracer studies aim to obtain information from former scholarship holders traced and contacted through AusAID data base or other records.

[8]   AusAID, *Snapshot of Training as of 31 March 1998*, September 1998.

Recommendation No.5

4.19 The ANAO recommends that AusAID develop quality performance information for ADS by:

- determining appropriate performance indicators of outputs and intermediate outcomes and their contribution to desired scheme outcomes;

- ensuring the capabilities of management information systems adequately support the provision of required performance information; and

- utilising internal and, where available, external benchmarks for assessing the performance of key aspects of the ADS scheme, including student outcomes, institution and administrative performance.

AusAID response

4.20 Agreed:

- AusAID's performance information framework will enable quantity and quality information on individual activities to be collated and reported. For the ADS scheme, AusAID agrees with the ANAO that it would be difficult to develop indicators 'relating individual efforts to broader economic and other developmental outcomes', but that it would be more practicable to use intermediate indicators of outcomes. AusAID is currently tendering for consultancy services to assist in the preparation of output indicators for the ADS scheme.

- In refining the management information system in the next stage of ADS management reforms, AusAID will pay particular attention to enhancing performance information.

- AusAID is conscious of the inherent difficulties in establishing meaningful external benchmarks for assessing the performance of the ADS scheme.

Performance results

Scholarship assistance has been viewed by AusAID and partner developing countries as effective

4.21 Overall, AusAID and partner governments have regarded Australia's scholarship assistance as effective in contributing to the development of partner developing countries. Partner government agencies have indicated, through formal consultative processes with AusAID, strong support for the continuation of scholarship assistance. This view was supported by comments of partner government agencies to the ANAO during the audit. A number of AusAID studies have concluded that previous scholarship schemes have been effective.

It is too early to assess performance results for ADS assistance

4.22   In the absence of a performance information framework for the ADS scheme it is difficult for AusAID to assess the performance of ADS. Further, given that ADS assistance commenced operation for the 1998 academic year, it will be some time before substantial data on ADS student academic progress, completion of studies and return home is available.

4.23   However, AusAID has some data on performance results for previous scholarship schemes. Because the ADS scheme merges features of previous schemes, these statistics offer some insight into aspects of performance management that warrant continuing AusAID attention and which should be addressed in the performance information framework for ADS. These include the level and impact of scholarship scheme losses and costs which result from students discontinuing their studies, not completing their studies within the award period, or not returning home.

Students who discontinue their studies or do not return home are a considerable loss for Australia's aid program

4.24   AusAID data indicates that 12 per cent of students assisted under previous scholarship schemes during the ten years from 1987–88 to 1996–97 discontinued their studies or did not return home (see Table 3).

Table 3

Students discontinuing studies or not returning home, by award categories, 1987–88 to 1996–97

| *Student category*	*Public category awards*	*Open category awards*	*Total awards*
Students discontinuing their studies or not returning home	9%	18%	12%
of which students not returning home [a]	(2%)	(2%)	(2%)

Source: Compiled from AusAID information sources

Note (a): The two per cent rate represents 253 students recorded as 'overstayed' in the AusAID student database. An earlier AusAID exercise identified 499 students who applied for or were granted permanent residency in the shorter period from 1989 to 1996–97. This suggests that the true overstay rate may have been higher than two per cent.

4.25   Some partner countries experienced student discontinuation/non-return home rates well above the average, with five countries having had rates of 20 per cent or higher, as shown in Figure 6.

Figure 6

Percentage of total students discontinuing studies or not returning home, countries with 100 or more finalised awards, 1987–88 to 1996–97
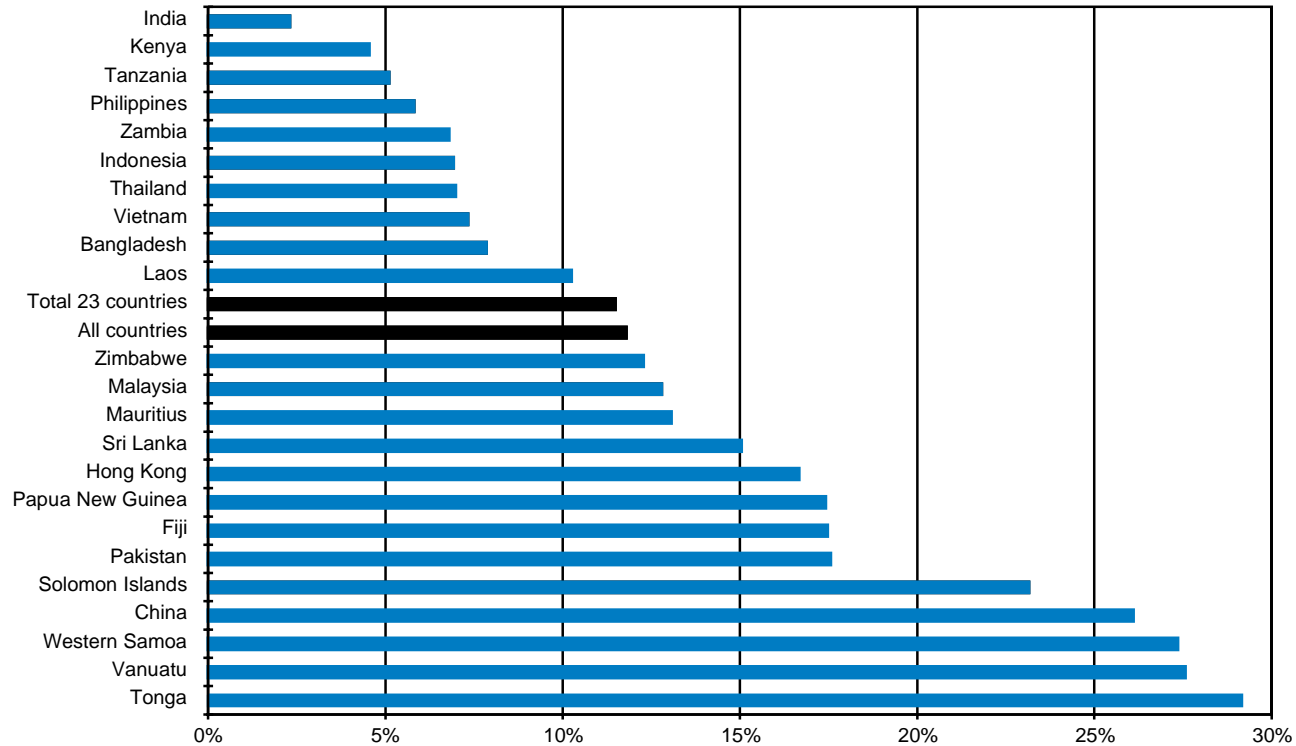
Source: Compiled from AusAID statistics

Note: 'Total 23 countries' refers here to the countries, shown in the figure, which had 100 or more finalised awards, 1987–88 to 1996–97.

Performance Information and Results

4.26   AusAID considers that the 12 per cent non-completion rate reflects a relatively high level of scheme performance. It noted that 88 per cent of AusAID students completed their course of study, whereas 60 per cent of the general student population at Australian institutions who commenced their studies in 1992 had completed that course by 1997.

4.27   The ANAO observed that the incidence of students who discontinued their studies or did not return home under previous scholarship schemes represented a considerable loss in terms of both opportunity cost and the reduced contribution of returning students to the development of their countries. The ANAO estimates a financial loss of ADS assistance of about $5 million in 1998 from students discontinuing their studies (where a student discontinues, this is more often in the first year of study) and, in addition, a potential loss of about $3 million from students not returning home. However, it is expected that the magnitude of these potential losses will reduce in future years, as the number of scholarship scheme students has fallen since 1995. Scholarship assistance reforms, including changes to student selection and placement processes under the ADS scheme and contractual arrangements with institutions for the management of student progress and welfare, also have the potential to reduce losses for the future.

4.28   AusAID is taking action to address the potential loss from students not returning home. New procedures will require students to repay the cost of their scholarship if they do not depart from Australia, unless students are granted protection visas (refugee status) or there are other exceptional circumstances.

Student extensions add to costs

4.29   Table 4 indicates that under previous scholarship schemes about 50 per cent of students completed their studies within their original award for the period from 1987–88 to 1996–97. In a separate exercise, data on a sample of students from one major ADS country who did not complete their studies on time indicated that, on average, they required extensions of time equivalent to 18 per cent of the original award duration to complete their studies in 1996 or 1997. Based on this AusAID sample study and other AusAID student extension data relating to that country, the ANAO estimates that award extensions for the ADS scheme cost about $10–15 million in 1998 in terms of increased course fees, stipends and other costs. It is expected that these additional costs will reduce in future years, due to the fall in the number of scholarship scheme students since 1995. Improved administrative arrangements associated with the ADS scheme and better student performance rates also have the potential to reduce these costs in the future.

Table 4

Students completing on time, by award categories, 1987–88 to 1996–97

Student category	Public category awards	Open category awards	Total awards
Students completing within the award period	57%	28%	50%

Source: Compiled from AusAID statistics

Conclusion—performance results

4.30   The ANAO concludes that, while AusAID and partner governments have regarded Australia's scholarship assistance as effective in contributing to the development of partner developing countries, data indicates that some 12 per cent of students assisted under previous scholarship schemes have not completed their studies or not returned home. Some countries experienced rates of student discontinuation and non-return home well above the average. While it is too early to assess performance results for ADS assistance, similar rates of student discontinuation and non-return home would have a marked impact on scheme outcomes. Award extensions also have the potential to add considerably to scheme costs if they continue at levels observed for previous scholarship schemes.

5. Planning ADS' Contribution to Country Aid and Award Targetting

This chapter examines integration of ADS assistance into country aid programs for individual partner countries and arrangements for targetting ADS awards at the country level to help meet the human resource development needs of partner countries.

Country aid programming

5.1 The systematic planning and management of development assistance to individual developing countries, or regional groupings of countries, is referred to by AusAID as country aid programming.

5.2 The ANAO examined AusAID performance in integrating ADS assistance into country aid programs, by focussing on ADS assistance to Indonesia, Vietnam, Papua New Guinea, Thailand, Fiji and Africa. These partner countries and region were chosen to provide a broad coverage of ADS beneficiaries, including the three largest ADS participating countries.

ADS assistance has been integrated into country aid programming

5.3 AusAID plans and manages the aid program for each developing country through various mechanisms. These include annual high-level consultations with partner country representatives; regular aid programming meetings with partner country agencies; periodic aid planning missions and reviews of aid activities; and the preparation of country aid strategies. The ANAO found that ADS assistance is now an integral part of AusAID country aid programming, which was one of the key policy intentions for the ADS scheme.

Country strategy papers were not finalised for some countries until July 1999

5.4 Country strategy papers prepared by AusAID are intended to bring together information on the development needs and priorities of each partner developing country and to present Australia's overall aid strategy for the country, generally over a three year planning period. The Simons committee review of Australia's overseas aid program reported in 1997 that AusAID did not have current country strategy papers

for most countries and the quality of previously prepared papers had been variable.[9]

5.5   AusAID responded to these criticisms by issuing guidelines on the production of strategy papers in 1998. By April 1999, strategy papers were prepared for most countries or regions. However, the ANAO found that papers for two of the countries selected as audit case studies were available in draft form only. AusAID advised that it completed the outstanding country strategy papers in July 1999.

Human resource development needs are inadequately addressed in strategy papers

5.6   The country strategy papers examined during the audit generally outlined the partner country's development situation; Australia's overall relations with the partner country; the current aid program; and the future aid program strategy. Risk management issues and performance monitoring and evaluation arrangements for the country aid program were also addressed.

5.7   The ANAO found that country strategy papers generally did not provide an adequate analysis of the human resource development needs of the partner country, particularly shortages of managerial, professional and technical personnel, and the capacity of the national education system to provide the required training. Such analysis could draw on more detailed analyses of these issues available in partner country and donor agency studies and plans. Nor did country strategy papers provide a clear and well argued rationale for the contribution of ADS, relative to other options for education and training assistance, in meeting the identified needs of the partner country.

5.8   These considerations are of importance for those partner countries where ADS provides significant assistance. Addressing this more clearly in country strategy papers would help identify suitable priority areas for focussing ADS assistance and provide greater transparency for the benefit of all stakeholders.

Effectiveness reviews of training assistance have not been conducted for some major ADS partner countries

5.9   AusAID has carried out some general reviews of previous scholarship schemes and some country-level studies. However, it has not undertaken in-depth reviews of the effectiveness of training assistance

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[9]   Report of the Committee of Review of the Australian Overseas Aid Program (Simons review), *One Clear Objective. Poverty Reduction through Sustainable Development*, April 1997, pp.165-167.

for some countries that are significant recipients of Australian training. For example, there has been no review of the development impact of the provision of more than 1200 scholarships since 1992 to one major ADS participating country. At current costs, these scholarships represent an investment of some $120 million.

5.10   The ANAO considers that there would be advantage in AusAID undertaking a series of reviews of ADS and other forms of training assistance for major ADS partner countries. The conduct of country reviews over a number of years could provide valuable assessments of the management of the ADS scheme and the development impact of ADS at the country level. The dissemination of review reports could promote better practice in scheme administration and improved scheme outcomes across country aid programs.

Conclusion—integration of ADS assistance into country aid programs

5.11   The ANAO concludes that AusAID has integrated ADS assistance into country aid programming. There is scope to improve aid programming by more clearly addressing human resource development issues in strategy papers and undertaking a program of training assistance reviews for significant ADS participating countries.

Recommendation No.6

5.12   The ANAO recommends that AusAID:

- ensure country strategy papers present adequate analysis of the human resource development needs of partner countries and of the rationale in support of ADS' contribution to country aid; and

- review at appropriate intervals the effectiveness of training assistance in helping meet the identified development needs of partner countries.

AusAID response

5.13   Agreed:

- Country and regional strategies, agreed jointly with partner governments, are key building blocks of country programs. In addressing human resource development needs of key priority sectors, strategy papers draw on more detailed analyses of HRD development needs for the country concerned.

- AusAID undertakes periodic reviews of the performance of key aid delivery mechanisms. A major review of ADS was completed in February 1999.

Award targetting

ADS awards are generally targetted

5.14   Every year, AusAID and counterpart agencies of each ADS participating country decide the number of ADS awards to be offered to those countries. They usually also agree on various scholarship categories for the awards, the number of awards to be allocated to each category and specific criteria for the selection of ADS students from that country.

5.15   In practical terms this may mean, for example, that a certain number of scholarships are earmarked for public and open award categories, for undergraduate and postgraduate studies, and in some countries for particular fields of study. In each category, awards are normally offered in equal numbers for men and women; in a few partner countries, some awards are also reserved for socially disadvantaged people.

5.16   The targetting of ADS awards helps focus ADS assistance on the identified human resource development needs and priorities of partner countries. However, this approach was used in only a limited way in one major ADS participating country. In that case ADS awards were apportioned between particular academic levels according to the relative number of applicants for awards at those levels, rather than on the basis of the identified human resource development needs of the partner country. The ANAO considers that AusAID should ensure that award targetting is applied to the full extent possible to ADS assistance in all country aid programs, to maximise its development impact.

Country program sections could be more actively involved in award targetting

5.17   Overseas posts usually draw on their in-country knowledge and experience to initiate award targetting proposals and discuss them with counterpart officials in partner countries. While there are clear advantages in overseas posts having the main carriage of award targetting proposals, there would be merit in country program sections taking a more active role than at present at key stages, given their overall responsibility for country aid programming.

The rationale for award targetting proposals could be strengthened

5.18   The ANAO found that the rationale for proposals regarding the number and composition of ADS awards for particular partner countries was not adequately supported by AusAID documentation. AusAID should substantiate award targetting proposals to ensure their robustness;

provide for appropriate accountability; and enhance the prospects of their acceptance in discussions with partner government agencies and, indeed, the likelihood of successful outcomes from ADS assistance.

Only one of the two award categories is offered in many ADS participating countries

5.19   The ADS scheme design envisaged that awards in both public and open categories would be offered in all countries where possible. Public category awards were intended to promote public sector institution development while open category awards were to provide opportunities for community groups to contribute to nation building in partner countries.

5.20   The ANAO found that, although most of the major ADS participating countries have both categories of awards, many other countries have only one award category. There was no clear rationale for AusAID providing only one award category to particular countries. AusAID advised that the varied mix of public sector and open awards is designed to allow flexibility within country aid programs to select the most appropriate award category. This is likely to change from year to year depending on emerging needs.

5.21   The ANAO also found that, in some partner countries, private sector applicants could apply for public category awards. This practice does not accord with ADS scheme design intentions.

There is a focus on undergraduate studies for some countries

5.22   AusAID and partner country agencies have specified the academic levels of study they desire for awards for virtually every ADS participating country. In many countries, ADS awards are restricted to postgraduate studies. A smaller number of countries offer awards across TAFE, undergraduate and postgraduate levels. The emphasis on ADS assistance for postgraduate training is consistent with the increasing capacity of partner countries and regions to meet their own training needs, particularly at the undergraduate level, through the institutional strengthening of their tertiary education institutions.

5.23   The ANAO observed that, for some major ADS partner countries, most awards have been allocated at the undergraduate degree level (see Figure 7). Examination of ADS assistance for one of these countries revealed that AusAID and the partner country had not made a convincing case that human resource development needs of the country were best addressed through the continued focus of ADS awards on undergraduate training.

Figure 7

Percentage of ADS students studying at the undergraduate degree level, major ADS countries, 1998
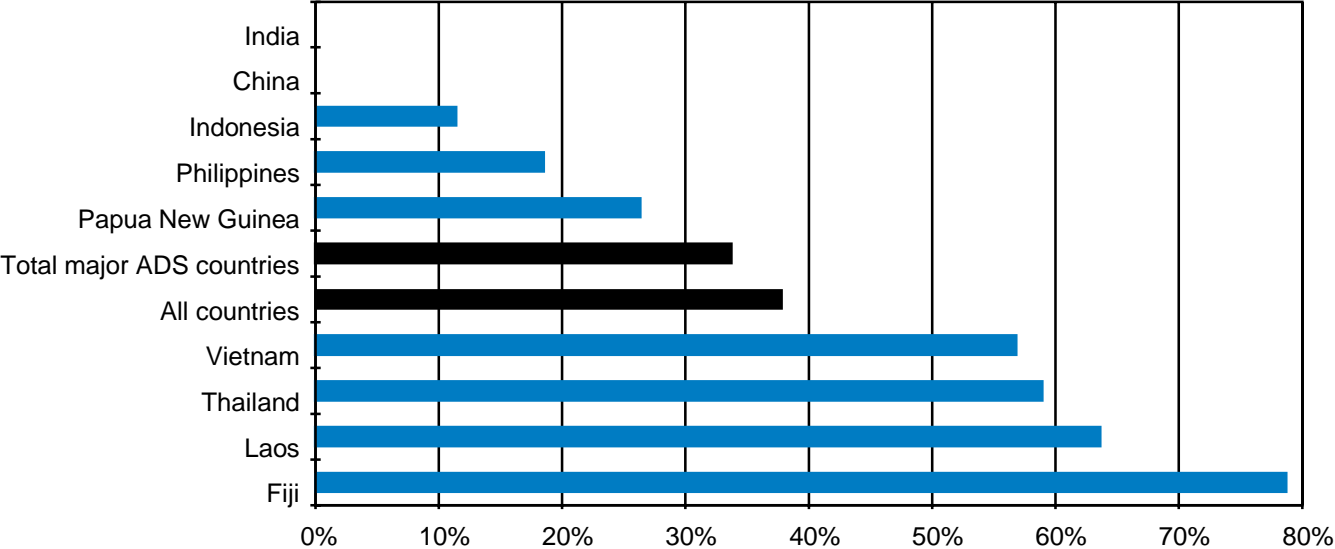
Source: Compiled from AusAID statistics

Note: Major ADS countries are defined here as countries with more than 100 ADS students in Australia in 1998.

5.24   The ANAO considers that, where partner country and regional tertiary education institutions have the demonstrated capacity to meet undergraduate training needs, AusAID and relevant partner country agencies should develop proposals to achieve the desired progressive shift in the focus of ADS assistance to postgraduate studies.

Priority fields of study for awards could be more focussed

5.25   AusAID and partner country agencies have identified priority fields of study for ADS for most countries. In some cases, these fields of study cover very broad sectors such as health and education. The specification of more focussed areas and courses of study, as undertaken for some countries, would help direct ADS assistance to more specific human resource development needs of partner countries. Enhanced country strategies, mentioned earlier, would support more focussed targetting in these areas.

Targetting outcomes

The gender equity target for ADS awards is not being met

5.26   It is AusAID policy that equal numbers of ADS awards be provided to men and women. The ASTAS and ADCOS scholarship schemes that ADS replaced had similar targets.

5.27   The ANAO found that AusAID has generally not met the gender equity target. Women accounted for 43 per cent of ADS students in 1998 (see Figure 8). There has been no real improvement in the gender balance of ADS and previous scholarship schemes in recent years.

5.28   Progress towards gender equity in ADS awards for some partner countries is difficult, due to gender imbalance in their public service and tertiary institutions. There also may be relatively few women applicants for scholarships in fields of study such as engineering or for doctorate studies. While AusAID has taken action to address gender imbalance, there would be merit in AusAID further examining means of overcoming impediments to achievement of its gender equity target.

5.29   AusAID advised that provisional 1999 data indicated that measurable gains are being made. Some 49 per cent of the latest ADS intake are women and they now account for 45 per cent of ADS students.

Figure 8

Percentage of female ADS students, major ADS countries, 1998
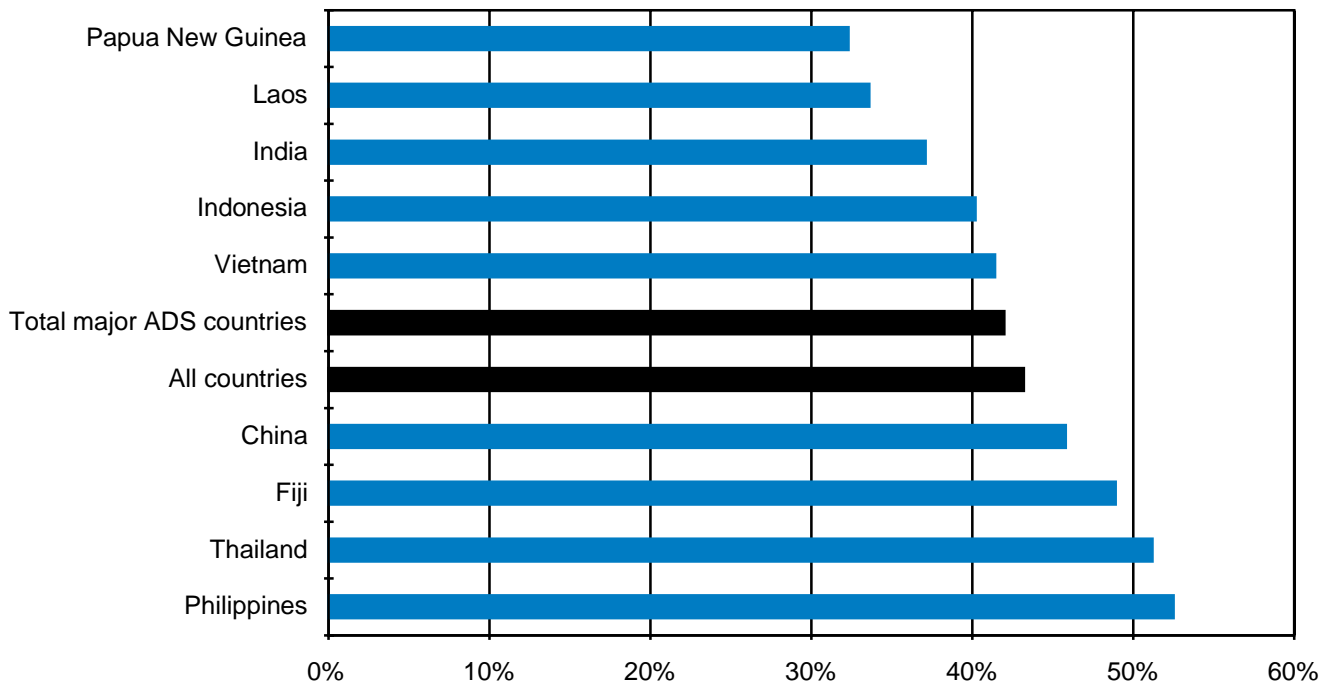
Source: Compiled from AusAID statistics

Note: Major ADS countries are defined here as countries with more than 100 ADS students in Australia in 1998.

Planning ADS' Contribution to Country Aid and Award Targetting

Some priority sectors for Australian aid are not well addressed by award targetting

5.30   The relative distribution of ADS awards across fields of study has a direct impact on the extent to which particular sectors in partner countries benefit from scholarship assistance. The five priority sectors for Australian aid are health, education, infrastructure, rural development and governance. Courses in education, agriculture and health have been identified among the priority fields of study for ADS awards for most major ADS participating countries.

5.31   The ANAO observed that many ADS awards are in fields of study that correspond to the broad governance sector. Only 23 per cent of ADS students were undertaking courses in education, agriculture and health in 1998. Education, agriculture and health accounted for four per cent, nine per cent and 10 per cent of ADS awards respectively. As indicated in Table 2 in Chapter 1, most ADS students study economics, business and administration; the natural sciences; and engineering.

5.32   In light of these outcomes, the ANAO considers that AusAID should ascertain whether ADS award targetting in country aid programs gives appropriate consideration to fields of study that match the priority sectors of Australia's aid program.

5.33   AusAID advised that more refined statistical analysis of ADS awards has now been undertaken. Provisional 1999 data indicates that approximately 68 per cent of awards are in the five priority aid sectors, including 26 per cent in education, health and rural development.[10]

Conclusion—award targetting

5.34   The ANAO concludes that AusAID's award targetting approach helps focus ADS assistance on the human resource development needs and priorities of partner countries. The rationale for proposals regarding the number and composition of ADS awards for particular countries could be strengthened. There are also opportunities for AusAID to make more effective use of award targetting in some partner countries by providing awards in both public and open categories; giving more emphasis to postgraduate training; and focussing on more specific areas and courses of study.

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[10]   The provisional 1999 data was classified using an international classification system different from that previously used in AusAID's annual statistical profile of ADS students. The proportion of awards for the five priority sectors was: governance—34 per cent; rural development—10 per cent; health—10 per cent; infrastructure—7 per cent; and education—7 per cent. Awards for the two cross-sectoral issues in the aid program were: environment—5 per cent; and gender—less than 1 per cent. The main non-priority sectors were: industry, mining and construction—11 per cent and other social-research/scientific institutions—11 per cent.

5.35 AusAID has generally not met the gender equity target for ADS awards and only a relatively small proportion of ADS students were undertaking studies in some fields that correspond to priority sectors for Australian aid. These issues warrant closer AusAID attention.

Recommendation No.7

5.36 The ANAO recommends that AusAID:

• effectively record and communicate the rationale for award targetting proposals for ADS assistance to adequately inform negotiations with partner countries and for overall transparency to stakeholders; and

• provide focussed targetting of ADS awards in support of ADS and country aid priorities and targets.

AusAID response

5.37 Agreed:

• Award targetting is discussed with partner governments in the context of high-level consultations. AusAID acknowledges the importance of better communicating the rationale for award targetting to all stakeholders.

• Award targetting is already undertaken in some of the larger country programs and AusAID considers this approach should be more widely applied where there is a substantial ADS program.

6. Student Selection, Course Advice and Award Variation

This chapter examines AusAID business processes for selecting ADS students and providing them with advice on courses at Australian education institutions. The incidence and cost of award variations, and processes for handling award variations, are also examined.

Student selection

6.1   ADS applicants compete for awards through annual selection processes conducted in their respective home countries. Audit coverage of ADS selection processes included an in-depth examination of the selection round for the 1999 student intake in two major ADS participating countries. Figure 9 provides an overview of the overall ADS award management processes, including student selection.
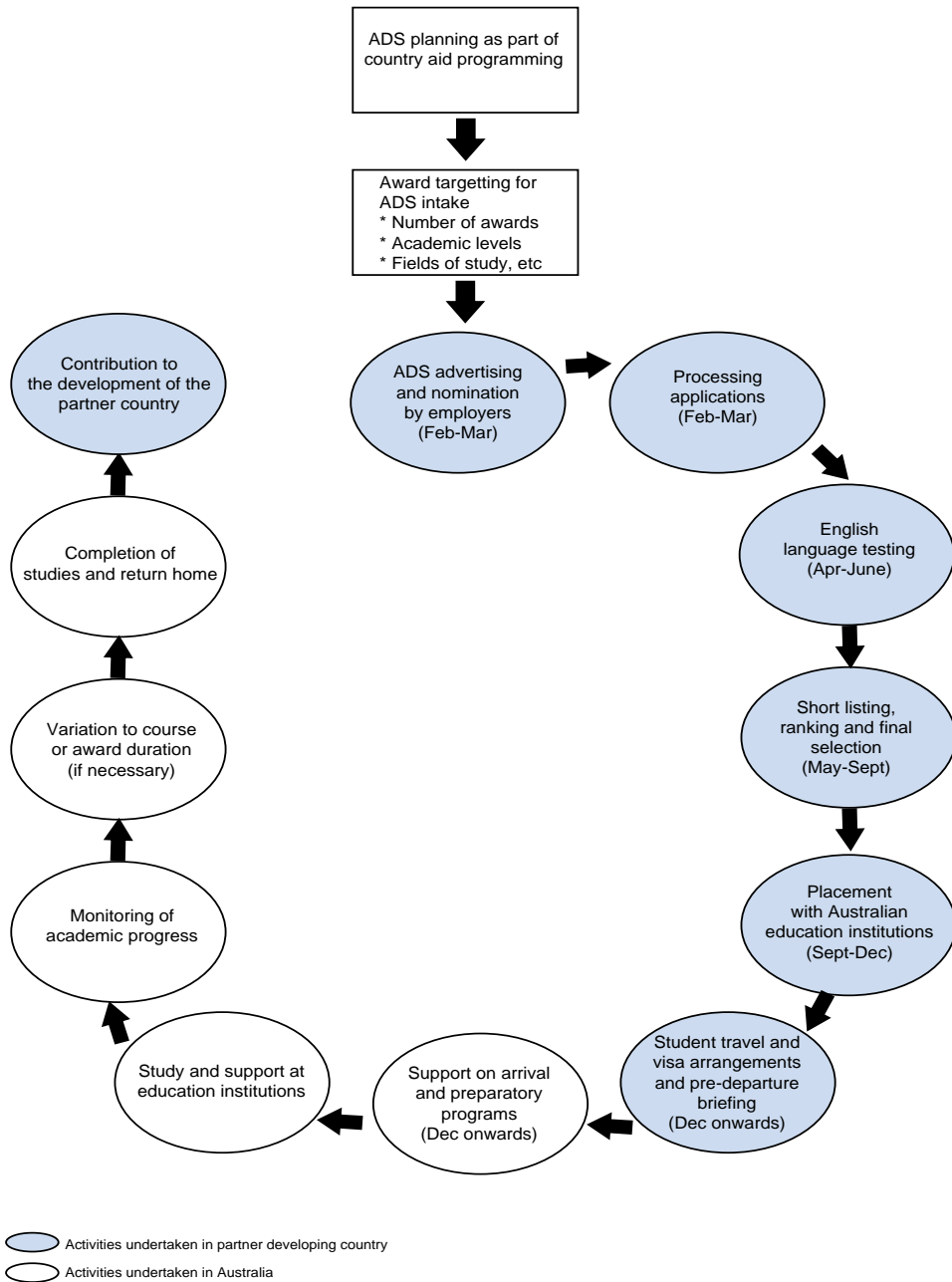
One ADS selection system has not been achieved for each partner country

6.2   The ADS scheme aimed to introduce one merit-based selection system for each partner country, with a high level of Australian involvement. This was expected to be more efficient than the separate systems that had operated for ASTAS and ADCOS; provide greater transparency; and ensure that high-quality students would be selected.

6.3   One ADS selection system has not been achieved for each partner country. The ANAO found that in one country, agencies of that country solicited, screened, ranked and nominated applicants for public category awards; this system was different from that for open category awards under AusAID control. These processes were not transparent and appeared to be managed in a less effective manner. Scholarship opportunities were not widely publicised, comprehensive documentation on many nominees was not available and the requirement for gender balance was not met. At the time of audit, efforts were being made to improve these nomination arrangements.

6.4   Consistent with the aims of the ADS reforms, the ANAO considers that ADS students should be chosen through a single selection process in each country, administered directly by AusAID or AusAID-appointed managing contractors. This would provide greater assurance that ADS selection is open, fair, and merit-based and that business processes are effectively managed.

Figure 9
ADS award management processes

ADS planning as part of
country aid programming

Award targetting for
ADS intake
* Number of awards
* Academic levels
* Fields of study, etc

Contribution to
the development of the
partner country

ADS advertising
and nomination
by employers
(Feb-Mar)

Processing
applications
(Feb-Mar)

English
language testing
(Apr-June)

Completion of
studies and return home

Short listing,
ranking and final
selection
(May-Sept)

Variation to course
or award duration
(if necessary)

Placement
with Australian
education institutions
(Sept-Dec)

Monitoring of
academic progress

Student travel and
visa arrangements
and pre-departure
briefing
(Dec onwards)

Study and support at
education institutions

Support on arrival
and preparatory
programs
(Dec onwards)

Activities undertaken in partner developing country
Activities undertaken in Australia

AusAID-managed selection processes have been satisfactory

6.5   AusAID has designed satisfactory arrangements for selection processes under its control. These arrangements have provided for open advertising of scholarship opportunities, specification of the selection processing stages, and development and refinement of criteria for short-listing and ranking applicants for ADS awards. The selection processes have been managed effectively and selection rounds have been finalised on time. The allocation of awards between various scholarship categories has generally been in line with the planned composition of awards for the partner countries.

Mismatches between numbers of applicants and available scholarships

6.6   Directing AusAID publicity for ADS awards in partner countries at encouraging suitable, high-quality applicants to apply for scholarships contributes to the efficient and effective selection of ADS students. The ANAO observed that there have been large fields of applicants for some general ADS award categories and quite small fields for narrower award categories, relative to the number of available scholarships. These large fields have generated considerable administrative workload for AusAID in processing applications and short-listing applicants. For example, in one partner country there were 4500 applications for 50 general open award category scholarships. In contrast, small fields have sometimes made it difficult to achieve intended target scholarship allocations for narrower award categories. For example, in one country most of the available scholarship places in the vocational and technical stream could not be filled in the 1999 selection round.

6.7   There would be value in AusAID seeking to influence more effectively the size of fields of applicants, by means such as indicating through scholarship advertisements and information provided to potential applicants those award categories where demand is expected to be high, and those where applications would be particularly welcomed. This could help potential applicants make more realistic assessments of their scholarship prospects before deciding whether to apply for awards. More stringent eligibility criteria could also be set, where appropriate, to help limit the size of fields of applicants to manageable numbers.

Selective interview of applicants at the final selection stages could help reduce some scheme risks

6.8   AusAID has recently introduced applicant interviewing as a key selection process for short-listed applicants in one major ADS participating country which has an annual ADS intake of 300 students. In other partner

countries, ADS selection processes have not usually included interviews with applicants. In these cases AusAID has generally relied on information supplied by applicants on their application forms and in supporting documentation, combined with the results of English language proficiency testing where appropriate, to rank and select ADS students.

6.9 There would be merit in AusAID undertaking a risk assessment and costing of options for interviewing ADS applicants at final selection stages. There could be a business case for interviewing applicants, on a selective basis during the final selection stages, particularly in partner countries that have above average student discontinuation rates. While these interviews would involve additional workload and increase administrative costs for AusAID, they could provide the Agency with greater assurance that scholarships are being offered to suitable, high-quality students. As noted earlier in this report, each ADS award involves a substantial investment of training assistance. The incidence of students not completing their studies or not returning home to contribute to their country's development represents a considerable financial loss and opportunity cost for the Australian aid program.

Selection decisions and processes could be better documented

6.10 Official records of the deliberations of the ADS selection committee have not been prepared in every partner country. In the interests of good governance, transparency of decision-making and overall accountability to the benefit of all stakeholders, selection committees should have adequate records of their proceedings, particularly their selection decisions.

6.11 Documentation on selection processes under AusAID control could also be improved. These have usually been documented in a variety of papers and communications. Consolidated documentation would provide for greater transparency of these activities and help to disseminate better practice for student selection.

A common record system for ADS selection could be cost-effective

6.12 AusAID has a range of computerised and manual record systems to support ADS selection processes for partner countries. The development of separate systems in each country entails additional costs and will result in data bases of different design, continuing to limit the support provided by data systems to performance management. The ANAO considers that AusAID should examine whether it would be cost-effective to install a common ADS record system.

ADS selection processes should be more systematically reported and monitored

6.13   AusAID has not systematically monitored the performance of ADS selection activities. Overseas posts have not been required to prepare country reports on selection rounds. Such reporting could make a significant contribution to the continuous improvement of selection processes, by identifying lessons learned and canvassing possible improvements.

6.14   AusAID introduced a standardised monitoring and reporting system in 1996 to record the implementation of all aid activities. However, the ANAO found that information on ADS was not consistently recorded in the system and has not been regularly updated. More systematic and regular use of this monitoring tool could assist management oversight of ADS for better performance.

Conclusion—student selection

6.15   The ANAO concludes that one ADS selection system administered by AusAID has not been achieved for each partner country. While AusAID-managed selection processes for ADS awards have been satisfactory, there would be value in AusAID seeking to influence more effectively the size of fields of applicants relative to the number of available scholarships and interviewing applicants selectively on a risk management basis. ADS selection decisions and processes could be better documented and there is scope to improve overseas post reporting and country program section monitoring of the conduct and results of each selection round.

Recommendation No.8

6.16   The ANAO recommends that AusAID:

• maintain records, at an appropriate level, of selection processes and selection committee decisions to demonstrate that ADS selection is open, fair and merit-based in accordance with scheme principles; and

• monitor and review ADS selection processes to support performance management and overall accountability.

AusAID response

6.17   Agreed:

• AusAID acknowledges the importance of demonstrating the selection process is in accord with ADS guiding principles (such as access, fairness and merit) and is agreed with the partner government.

• This issue will be addressed in the planning and implementation of

the next stage of ADS management reforms. Updating ADS guidelines and reporting requirements will assist in comparing the efficiency and effectiveness of selection practices across the ADS scheme.

Course advice

AusAID has not adequately defined its role in assisting applicants to choose courses

6.18 Under current scheme arrangements, applicants for ADS awards indicate their first and second choice of course of study and of Australian education institution. This is an important stage in obtaining effective outcomes from ADS assistance, since poor course selection can adversely affect academic progress and lead to costly award variations.

6.19 AusAID advised the ANAO that it has been its practice for some years to give students freedom of choice in selecting courses of study and to provide them with information so that their choices were reasonably well informed. AusAID indicated that it is now considering other options for selecting suitable courses for ADS students, which would still factor in student preference.

6.20 The ANAO found that AusAID has not clearly defined its role in assisting applicants to choose appropriate courses. Practices vary as to whether overseas posts limit their assistance to course information services, or extend their support to the provision of course guidance and placement counselling. In some partner countries, AusAID overrides student choices that it regards as inappropriate. In other countries such choices in the same circumstances are left unaltered.

6.21 The ANAO observed that overseas posts generally do not have the staff resources, knowledge and expertise to guide applicants on best course options. Given these constraints, the ANAO suggests that AusAID ensure that basic course information is available to all applicants and that course guidance is provided to the smaller number of applicants who are likely to be offered scholarships and have been identified as being at risk of making poor course selections. Options for delivering such course advisory services would need to be further developed.

Access of applicants to course information can be improved

6.22 AusAID overseas posts generally hold a range of resource material on Australian education institutions and courses. ADS applicants who visit these posts can use this information to nominate course choices. However, this information is not always complete or current, and it cannot be readily accessed by applicants who live some distance from Australian diplomatic missions.

6.23 There would be benefit in AusAID examining cost-effective ways of improving the access of ADS applicants to appropriate course information. Information services that AusAID overseas posts could provide include the maintenance of more comprehensive and up-to-date information holdings on education institutions and courses; mail out services of authorised extracts from course publications to applicants in remote localities in partner countries; and course briefings by Australian education institution representatives for high-ranked ADS candidates. There may also be some scope for AusAID to rationalise some existing information services through greater use of the services and facilities of the Australian Education International network.

Conclusion—course advice

6.24 The ANAO concludes that AusAID has not clearly defined its role in assisting ADS applicants to choose courses. The range of support services provided to applicants varies between partner countries and this could lead to different course selection outcomes for students in the same circumstances. Cost-effective ways to improve the access of applicants to appropriate course information warrant AusAID attention.

Recommendation No.9

6.25 The ANAO recommends that AusAID:

• enable ADS applicants to indicate an appropriate course preference for study in Australia by providing them with access to adequate information about education institutions and courses; and

• ensure its role in course selection for ADS students is clearly specified to manage appropriately the risk of unsuitable course selection in support of better scheme performance.

AusAID response

6.26 Agreed:

• ADS applicants are provided with information on which to base their nomination for preferred courses. AusAID accepts the need to improve access to information by prospective students to assist them to make informed choices on courses and institutions. This is to be addressed under the recently approved ADS management reforms.

• AusAID's role in the selection process will be dependent on a number of factors, including (for example) the risk assessment of ADS; the opportunity cost of AusAID resources; and the relative size and focus of the country program.

Award variation

6.27   AusAID may decide to vary ADS awards, for example, to enable students to extend the time to complete their studies; upgrade to a higher qualification; or transfer to another education institution or course. AusAID also may suspend or terminate awards in some circumstances.

There would be benefit in analysing reasons for award variations

6.28   AusAID does not routinely produce statistics on the number and cost of award variations, to enable effective performance monitoring of this aspect of ADS award management. However, it is apparent from available data that award variations are common and add to the cost of the provision of scholarship assistance. During 1997 AusAID approved about 1380 student extensions; representing about one extension for every four students. The ANAO estimates from the limited information available that student variations cost about $10–15 million in 1998.

6.29   Information analysed during the audit indicated that award variations were caused by many factors, some of which are largely beyond the control of AusAID and education institutions, for example student illness. However, some cases were clearly more amenable to influence by AusAID administration, including students being enrolled in inappropriate courses; English language difficulties; or students awarded scholarships too short for the duration of their courses.

6.30   Institution performance contributed to some award variations. Cases were noted where education institutions incorrectly advised AusAID of the duration of courses or lengthened courses after students commenced studies. Poor academic supervision, or inadequate attention to requirements for equipment or facilities to undertake research work adversely affected the progress of some students. In these circumstances institutions sometimes agreed to waive academic fees for the additional period of course enrollment.

6.31   AusAID does not monitor the reasons for award variations. Given the incidence and cost of award variations, it would be good management practice to collect this information to help identify underlying problems in student selection, placement and management that result in requests for award variations. This data should form part of AusAID's performance information framework for ADS assistance, addressed more generally in Chapter 4 of this report.

Award variation processes could be improved

6.32   The ANAO found that the merits of many student variations approved at State office level were re-examined by country program sections and overseas posts, even though it is not their responsibility. This re-work might be avoided if State office decisions more clearly demonstrated that the full range of options for resolving award variation requests had been canvassed. AusAID could help ensure the quality of State office case decisions by providing aides such as examples of model decisions and by instituting quality assurance arrangements.

6.33   The ANAO also found that AusAID did not have efficient and effective arrangements for disseminating information on award variation rules that are specific to partner countries. It is important that all parties are aware of the current rules and that student variation requests are framed in terms of those rules. To this end AusAID should consider communicating award variation rules by electronic bulletin to education institutions and AusAID staff.

Appeals processes should be formalised

6.34   AusAID senior staff usually review cases where ADS students request reconsideration of adverse decisions relating to their awards. AusAID has no formal processes for appeals, and ADS students are not advised of appeal rights. Award decisions can have major consequences for the academic studies and careers of students. It would be better practice for AusAID to institute formal appeals mechanisms for the ADS scheme and inform students of the appeals processes.

Conclusion—award variation

6.35   The ANAO concludes that there would be benefit in AusAID analysing the reasons for award variations to help identify underlying problems in student selection, placement and management. There is also scope for AusAID to improve award variation administration by streamlining business processes and issuing information more systematically on award variation rules. The introduction of a formal appeals mechanism for the ADS scheme would provide a more transparent process for review of adverse decisions.

7. Management of Contracts with Education Institutions

This chapter examines AusAID's management of contractual arrangements with Australian education institutions for ADS services.

Contractual arrangements

7.1   AusAID has contracts with more than 40 Australian education institutions for the provision of training, administration and support services for ADS students (see Table 5). Good management of these contractual arrangements is critical to achieving effective outcomes from expenditure on ADS awards ($128 million in 1997–98).

Table 5

Main services of education institutions for ADS students

Academic services	Provision of preparatory, introductory academic and orientation programs
	Academic tuition and monitoring of student progress
Administration	Payment of establishment allowance, to assist students on arrival
	Payment of stipend
	Arranging health cover while students are in Australia
	Arranging travel for return home after completion of studies and for any approved overseas field work during studies
Support services	Arranging reception at the airport and initial accommodation
	General support services including access to counselling
	Additional tutorial assistance (where required)

7.2   AusAID pays institutions separate fees for the academic tuition of ADS students; student management; and additional tutorial assistance. Institutions are also provided with funds to pay establishment allowances and stipends to students, as well as to pay for student health cover and approved overseas travel expenses.

7.3   Numbers of student enrollments at institutions are summarised in Appendix 4.

Contract management

Designated AusAID State office staff are managing contractual arrangements

7.4   AusAID has put in place administrative arrangements for managing the contracts, including the designation of State office staff to manage relations with each institution, consistent with contractual provisions. Education institutions have appointed staff to liaise with AusAID and coordinate the delivery of contracted services.

7.5   Relevant AusAID staff were provided with guidance or training in 1997 to help them perform their new duties. The nature and depth of this guidance and training varied between State offices. Given the importance of contract management skills to future performance of the scheme, AusAID should keep under review the adequacy of these staff skill sets.

The provision of contracted services is being monitored

7.6   The contractual arrangements with education institutions provide a broad framework for monitoring institution performance for contracted services. The institutions are required to supply information on the conduct of activities and services for ADS students. This includes regular status reports on the progress of students; quarterly reports on expected and actual expenditure; and papers relating to award variations for individual students.

7.7   AusAID and the education institutions also participate in a formal annual performance review. AusAID scrutinises the annual performance report of each education institution; discusses issues raised in the report with the institution; and provides a written performance assessment to the institution. The ANAO observed that these performance reviews are an important means by which AusAID and education institutions consider general issues related to the delivery of contracted services and review their respective contractual performance.

7.8   Within this broad framework for performance monitoring, there are differences in contract management practices between State offices. For example, in some cases AusAID does not provide clear assessment of institution performance against contractual requirements. The ANAO also found that AusAID has not instituted nation-wide systems for measuring and recording the comparative performance of institutions, with the result that there is no national oversight of institution performance. There are no formal consultative arrangements between State offices to help develop common business processes for contract management and to promote consistent national assessment of institution performance.

7.9 The ANAO considers there is scope for AusAID to identify better State office contract management practices and adopt these arrangements across the Agency. This would contribute to more consistent and effective management of contracts with education institutions. Greater consistency in monitoring and reviewing key aspects of institution performance can be achieved while flexibly managing the ongoing relationship with individual institutions to suit their particular circumstances.

AusAID has identified some areas of inadequate institution performance

7.10 The first annual institution performance reviews finalised in early 1998 enabled AusAID to identify some areas where it and individual education institutions could improve their operations. AusAID acknowledged that its data processing system had not been operating at the optimum level and this had made it difficult for the institutions to fulfill their obligations under the contract.

7.11 AusAID informed many institutions that there were problems with the quality of their academic monitoring of student progress at the student supervisor level. AusAID also noted that some institutions had not provided progress reports on time and had experienced difficulties in meeting AusAID requirements regarding the payment of student stipends and invoicing. (The second year of this continuous improvement process was still under way at the time of audit fieldwork.)

7.12 The ANAO found that while AusAID has provided feedback to individual education institutions on their contractual performance, it does not have systematic arrangements for promoting wider adoption of good institution practice to the benefit of overall scheme performance. There would be merit in AusAID considering ways of disseminating information that would contribute to better institution practice.

Options for streamlining payment and reconciliation business processes could be examined

7.13 AusAID makes quarterly payments to education institutions for ADS students on the basis of their invoices for estimated expenditure for the forthcoming period and advices of actual expenditure for the current period. The ANAO found that the business processes for checking and reconciling invoices and advices are not efficient, being resource-intensive and hampered by limitations in the management information system for the ADS scheme. These problems have been recognised within AusAID and were further highlighted in the recent AusAID-commissioned review of ADS administration. AusAID should examine more cost-effective options for streamlining payment and reconciliation business processes for the ADS scheme.

Trust account arrangements have not been operating satisfactorily

7.14 The standard contract between AusAID and education institutions requires education institutions to operate trust accounts for the purpose of holding trust funds payable to ADS students and other third parties, as well as the interest earned on these funds. The ANAO sought information from AusAID on the operation of the trust accounts, particularly whether the funds being provided by AusAID to the institutions for third party payments took account of the interest in the trust accounts.

7.15 AusAID advised that it had not taken the interest earned on trust funds into account in providing funds to the institutions for third party payments. It has now initiated various actions to rectify this. Information obtained by AusAID at the time of the audit from a number of institutions indicated that they held approximately $440 000 in accumulated interest earned on trust funds. Some institutions had not established trust accounts and/or have held funds in non-interest bearing accounts. The ANAO considers that it is important that AusAID improve the cash management of funds for third party payments and ensure that trust account arrangements, where required, are operating satisfactorily.

Conclusion—management of contracts with education institutions

7.16 The ANAO concludes that AusAID has put in place administrative arrangements for the management of contracts with education institutions, including designated State office staff to manage relations with each institution. The guidance and training in contract management provided to these staff in 1997 varied between State offices. The adequacy of AusAID staff skill sets for contract management should be kept under review as these skills are important to the performance of the scheme.

7.17 The contractual arrangements provide a broad framework for monitoring institution performance for contracted services. Within this framework, there are differences in State office contract management practices. Consistent contract monitoring practices should be established across AusAID to improve feedback to institutions on their contractual performance.

7.18 Some areas of inadequate institution performance have been identified by AusAID and reported to individual institutions through the framework for performance monitoring. However, AusAID does not have systematic arrangements for promoting wider adoption of better institution practice. There would be merit in AusAID considering ways of disseminating better practice information to institutions.

7.19   AusAID's business processing for making payments to education institutions are not efficient. Cost-effective options to reduce the administrative effort required to check payment claims from the institutions should be examined. Trust account arrangements whereby institutions hold funds payable to ADS students and other third parties have not been operating satisfactorily. There is scope to improve the cash management of funds for third party payments and the operation of the trust account arrangements.

Recommendation No.10

7.20   The ANAO recommends that AusAID establish consistent contract management practices for monitoring and reviewing institution performance within a framework that permits flexible management of the ongoing relationship with individual institutions to suit their particular circumstances.

AusAID response

7.21   Agreed. The recent decision to centralise management of the ADS scheme will facilitate a more consistent approach to the assessment of institution performance. Planned performance requirements in new contracts for education institutions will provide added incentives for an institution to improve its delivery of student services. AusAID has commenced an analysis of institution performance assessment practices used in State offices as a first step in developing a consistent and comprehensive monitoring framework.

Developing contractual arrangements

The introduction of further purchasing reforms for training services is a significant challenge for AusAID

7.22   AusAID is currently considering options for future contractual arrangements with education institutions, taking into account the findings and recommendations of this report and the report of the recent AusAID-commissioned review of ADS administration.

7.23   The AusAID-commissioned review recommended that AusAID establish new competitive tendering and contracting arrangements during 1999, following consultations with education institutions. Under these arrangements, AusAID would offer partner countries a selection of preferred courses at preferred institutions for ADS students, based on course suitability, institutional capability and the fixed total price for a student to complete the award course. The review also proposed that this second phase of reform in the purchase of training services lead to the introduction of fully open and effective competitive tendering and contracting arrangements in 2003–2004.

7.24   The ANAO noted that the development and introduction of further purchasing reforms is a significant challenge for AusAID as the last contract negotiation process with education institutions was protracted and resource-intensive. The next phases of purchasing reforms may be even more difficult, if it includes a move to more competitive tendering.

7.25   AusAID's consideration of options for the introduction of competitive tendering for training services for ADS students is also likely to require the Agency to re-examine several key operating policies and administrative arrangements for the ADS scheme. These include the primacy of student choice in the selection of course and education institution, and the mechanisms for determining student placement.

7.26   While AusAID can draw on its experience in introducing the current contracts with education institutions as well as its broader in-house contract services capacity, there would be value in drawing on independent expert advice on contract design and contract negotiation, and learning from the experiences of other Commonwealth agencies in pursuing similar reform agendas, to achieve more focussed and timely implementation of the next round of reforms.

Specifying student performance outcomes

7.27   The standard contract between AusAID and education institutions focusses on the delivery of specified training, administration and support services; the arrangements for financial payments; the requirements for consultation and reporting; and the mechanisms for dispute resolution and contract termination. It does not specify any performance outcomes that institutions aim to deliver for ADS students through the provision of contracted services.

7.28   Better practice in contract design is to identify appropriate target outputs or outcomes in contract documentation. Student performance measures that could be incorporated in future contracts for ADS assistance include target semester pass rates, annual withdrawal rates and graduation rates. A strong focus on performance outcomes for ADS students in contracts with institutions would provide greater assurance that contractual arrangements promote AusAID's objective for scholarship assistance.

Options for performance-based contracts

7.29   AusAID could consider the introduction of performance-based contracts with education institutions for training and support services. Such contracts would link the payment of contract fees to the achievement of agreed performance outcomes for ADS students. Performance-based contracts have been introduced in other contracted service delivery areas in recent years.

7.30 The ANAO recognises that proposals for performance-based contracts may not gain widespread acceptance from institutions, as institutions would be required to accept much greater responsibility for student performance than applies at present. Nevertheless, it would be to AusAID's advantage to canvass the interest of education institutions in this form of contract. These arrangements could involve AusAID paying higher fees to those education institutions that are willing to share in the risk, currently borne by AusAID, that students do not complete their studies within the specified award period.

Reducing the total cost of training and support services for ADS students in future contracts

7.31 Under the existing contract, education institutions are paid an academic tuition fee as well as an annual management fee for each enrolled ADS student. The ANAO considers that there are opportunities for AusAID to negotiate the reduction of tuition and management fees for ADS students in future contract negotiations.

7.32 AusAID pays full tuition fees for ADS students. Although it is a large supplier of students to institutions, AusAID does not receive a discount to mirror the 9–15 per cent commission of first year tuition fees which education institutions pay agents who recruit private international students. AusAID had been aware of these commission arrangements during the last round of contract negotiations with institutions in 1996, but did not pursue the issue at that time, because it was seeking to take a gradualist approach to reform. A 10 per cent discount on first year tuition fees for ADS students would represent savings of $1.9 million per annum.

7.33 AusAID pays an estimated $2.8 million annually for student management fees. These fees are substantially higher than AusAID assessed during the last round of contract negotiations would be reasonable for student management services, but lower than institutions had originally bid for these services. AusAID has the potential to negotiate a substantial reduction of the cost of these services, based on institutions' experience of service cost and the prospect of a more competitive tendering environment.

Contract management costs should be a relevant factor in signing future contracts

7.34 AusAID does not identify the costs of managing contracts with institutions. Some 17 per cent of contracted institutions had fewer than 15 ADS students in 1998. AusAID's per capita contract management costs are likely to be substantially higher for these institutions.

7.35 In the ANAO's view, AusAID should recognise contract management costs as a relevant factor to be considered before entering into new contracts to purchase services from education institutions, particularly where institutions have attracted relatively few ADS student enrollments.

Future contracts should be strengthened in some other areas

7.36 Education institutions arranging services for ADS students under the standard contract may receive discounts from third parties who provide those services. AusAID considers that institutions' retention of these discounts is contrary to the contract, although this view has not been accepted by some institutions. Future contracts should be more expressly worded to put beyond any doubt that institutions are not entitled to retain any discount received from third parties.

7.37 The current standard contract with education institutions provides for the Commonwealth to copy and audit the accounts and records of the education institutions relating to the contracted services. The powers of AusAID and the ANAO to access these records would be strengthened by AusAID incorporating the more comprehensive model access clauses recently developed by the ANAO into future contractual arrangements with the institutions.

Conclusions—developing contractual arrangements

7.38 AusAID is currently considering options for future contractual arrangements with education institutions for the delivery of training, administration and support services. The development and introduction of further purchasing reforms is a significant challenge for AusAID, as the last contract negotiation process was protracted and the next phases may be even more difficult, if it includes a move to more competitive tendering.

7.39 The ANAO concludes that there are significant opportunities for AusAID to introduce contract reforms which would specify agreed target performance outcomes for ADS students and reduce the total cost of training and support services.

7.40 The existing contracts between AusAID and the education institutions do not specify performance outcomes that institutions aim to deliver for ADS students. The identification of target outputs and outcomes in contract documentation is recognised better practice and would help to promote AusAID's objective for scholarship assistance.

7.41 AusAID pays full tuition fees and student management fees to institutions for ADS students. There is scope for AusAID to pursue a discount on tuition fees to mirror the commission fees paid to agents

who recruit private international students. AusAID also has the potential to negotiate lower fees for student management services, based on institutions' experience of the cost of these services and the prospect of a more competitive tendering environment. AusAID should also recognise the costs of managing contracts as a relevant factor to be considered before entering into new contracts with institutions, particularly where they have attracted relatively few ADS student enrollments.

Recommendation No.11

7.42 The ANAO recommends that, in developing proposals for new contractual arrangements with education institutions, AusAID:

- incorporate agreed performance indicators in future contracts to specify the student performance outcomes that institutions aim to deliver through the provision of contracted services; and

- seek to reduce tuition and management fees for ADS students in future contract negotiations with education institutions to achieve more cost-effective outcomes.

AusAID response

7.43 Agreed:

- New contracts with education institutions will include performance indicators. AusAID is currently tendering for consultancy services to assist in the formulation of appropriate indicators to monitor and assess institution performance.

- The 1998 review commissioned by AusAID also posited a more performance oriented and cost competitive environment for the provision of student services and the new contracting arrangements will reflect these factors. Draft conditions of tender have been prepared.

Canberra ACT
25 October 1999

P.J. Barrett
Auditor-General

Appendices

Appendix 1

Policies and guiding principles for ADS assistance

Key policies and guiding principles for ADS assistance are set out below:

- the objective and principles of Australia's aid program;
- the goal, priority areas and underlying principles of Australia's education and training assistance; and
- the objective, policy principles and administrative principles of scholarship assistance.

Objective and principles of Australia's aid program

The objective, principles and priorities of Australia's aid program were set out in a policy statement by the Minister for Foreign Affairs in November 1997.[11]

The objective and principles are reproduced below:

Objective

The Government has determined that the objective of the Australian overseas aid program will be:

to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development.

Principles

In addition to the objective, six key principles will underpin Australia's aid program.

Focus on Partnerships

The aid program will be determined and implemented in partnership with developing countries. This will guarantee that the program remains focused on meeting the priority needs of partner countries. Our aid will also forge strategic partnerships with other key players in the development process—both in Australia and overseas.

Responsive to Urgent Needs and Development Trends

A modern, effective aid program must provide rapid relief to victims of natural disasters and emergencies and take account of changing pressures in developing countries.

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[11] Minister for Foreign Affairs (The Hon. Alexander Downer MP), *Better Aid for a Better Future: Seventh Annual Report to Parliament on Australia's Development Cooperation Program and the Government's Response to the Committee of Review of Australia's Overseas Aid Program*, November 1997, pp.5-6.

Practical Approaches

Australia's aid program will be realistic in assessing what can and cannot be achieved. It will concentrate on practical efforts that can alleviate poverty and promote sustainable development.

Greater Targetting

Our aid program cannot afford to be all things to all people—greater definition and targetting is essential. Clear priorities have been identified, and our efforts will be assessed against those priorities.

Australian Identity

Our aid program will remain identifiably Australian—it is a reflection of Australian values and is a projection of those values abroad.

Outward Looking

The aid program will be open to new ideas and approaches. It will look outward and draw on the best ideas in Australia and overseas.

Goal, priority areas and principles of education and training assistance

The goal, priority areas and underlying principles for Australia's education and training assistance were announced in a policy statement of the Minister for Foreign Affairs in August 1996.[12] Details are set out below:

Goal

Recognising that education and training are fundamental to the development process, Australia's aid program aims to assist developing countries to meet the educational needs of their people.

Priority Areas

- Basic education
- Vocational and technical education
- Higher education
- Institutional strengthening
- Distance education

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[12] Minister for Foreign Affairs (The Hon. Alexander Downer MP*), Education and Training in Australia's Aid Program*, August 1996, p.3.

Underlying Principles

- To increase access to education including provision for re-entry to formal education and for lifelong learning.

- To promote equity in the distribution of education opportunities and in resource allocation, including equal opportunities for disadvantaged groups, particularly women and girls and rural communities.

- To assist with the achievement of overall qualitative improvements in education services and standards, particularly in basic education.

- To provide education which is relevant to the needs of individuals and of the community.

- To facilitate the effective and efficient use of resources in the education and training sector.

Objective, policy principles and administrative principles of scholarship assistance

AusAID currently has the following guiding principles for scholarship assistance:

Long Term Scholarship Program Principles

Aid Program Objective

To advance Australia's national interests by assisting developing countries to reduce poverty and achieve sustainable development.

Scholarship Program Objective

To provide to people of developing countries training which facilitates their contribution to the reduction of poverty and the achievement of sustainable development in their country.

Policy Principles

Training should be delivered in the most cost effective way possible.

Training should have concern for long term development impact.

Training should strive to maximise the development impact on the partner country.

Training should have regard to access and equity principles, including those that relate to race and gender.

Training should be consistent with the law and with general Commonwealth Government policies.

Administrative Principles

Individual scholarship holders should be encouraged and assisted to complete their qualification in the shortest time possible.

Training providers should endeavour to identify and address as early as possible any factors that could inhibit an awardee's capacity to complete their qualification in the shortest time possible.

Appendix 2

ADS students by region and country, 1998

Region and country	Number of ADS students
South East Asia countries:	**1923**
Indonesia	666
Vietnam	551
Philippines	265
Thailand	246
Laos	107
Two other South East Asia countries	88
Papua New Guinea	**403**
Pacific Island countries:	**560**
Fiji	188
Samoa	76
Tonga	63
12 other Pacific Island countries	233
South Asia countries:	**393**
India	105
Bangladesh	79
Sri Lanka	63
Maldives	57
Nepal	53
Two other South Asia countries	36
North Asia countries:	**183**
China	153
One other North Asia country	30
18 Sub-Saharan Africa countries	**271**
Total 50 countries	**3733**

Source: AusAID, *Australia's Overseas Aid Program. Snapshot of Training as of 31 March 1998*, September 1998, Table 1, pp.3–9.

Note: Countries with fewer than 50 students are not shown separately.

Appendix 3

Audit criteria

1: Management and administrative framework for the scheme

AusAID's management and administrative framework assists efficient and effective delivery of the ADS scheme.

2: Design of the scheme and its relationship to education sector aid policy

The ADS scheme is soundly designed and the priority that AusAID accords the scheme in the aid program is consistent with stated government intentions.

3: Provision of scholarship assistance to specific partner developing countries

The provision of scholarship assistance is integrated into country aid programming and scholarship assistance to particular countries focusses on their priority development needs.

4: Management of contracted education institutions

AusAID administrative arrangements for managing contracted education institutions' provision of training, administration and support services for the ADS scheme are efficient and effective.

5: Overseas posts

Overseas posts ensure that scholarships are awarded to suitable high quality students, and provide scholarship holders with appropriate placement advice and assistance.

6: Student case administration

AusAID efficiently and effectively handles student administration cases.

Appendix 4

ADS students by education institution and State, 1998

Education institution and State	Number of ADS students
University of New South Wales	363
University of Sydney	219
University of New England	136
University of Wollongong	136
University of Newcastle	95
University of Technology Sydney	66
Macquarie University	50
Eight other NSW institutions	184
Total New South Wales	**1249**
Monash University	206
RMIT University	174
University of Melbourne	166
La Trobe University	88
Deakin University	58
Victoria University of Technology	56
Swinburne University of Technology	54
Two other Victoria institutions	47
Total Victoria	**849**
University of Queensland	295
Queensland University of Technology	124
Technical and TAFE Colleges	80
James Cook University	69
Griffith University	58
Three other Queensland institutions	89
Total Queensland	**715**
University of Adelaide	168
Flinders University	69
University of South Australia	52
Two other South Australia institutions	14
Total South Australia	**303**
Australian National University	203
University of Canberra	59
One other ACT institution	33
Total Australian Capital Territory	**295**
Curtin University of Technology	91
Three other Western Australia institutions	111
Total Western Australia	**202**
University of Tasmania	61
Two other Tasmania institutions	31
Total Tasmania	**92**
One Northern Territory institution	18
Total Northern Territory	**18**
Total ADS students at education institutions	**3723**

Source: AusAID, *Australia's Overseas Aid Program. Snapshot of Training as of 31 March 1998*, September 1998, Table 2, p.13.

Note: Education institutions with fewer than 50 students are not shown separately.

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