



Department
for International
Development



Commonwealth Scholarship Commission in the United Kingdom (CSC) (Triennial Review)

Commonwealth Scholarship Commission

Triennial Review

Stage 1

Introduction

1. The Commonwealth Scholarship Commission (CSC) is an executive Non-Departmental Public Body (NDPB) sponsored by the Department for International Development (DFID). It is Government policy that a NDPB should remain in existence only where it can be clearly evidenced as the most appropriate and cost-effective way of delivering the function in question. NDPBs are therefore subject to review every three years. These Triennial Reviews should be proportionate in relation to the NDPB in question; not overly bureaucratic, and conducted in a way that represents value for money; completed in a timely fashion to minimise disruption and uncertainty; and robust, rigorous, inclusive and transparent.

2. Triennial Reviews have two stages. Stage 1 involves examination of the key functions of the NDPB; assessment of how they contribute to the core business of the NDPB and the sponsor Department; and consideration as to whether they are still needed. If that remains the case, the review goes on to consider how the functions might best be delivered by examining a range of options. Where Stage 1 concludes that the NDPB in question should remain, Stage 2 examines its control and governance arrangements to ensure that it is operating in line with recognised principles of good corporate governance.

3. The Triennial Review of the CSC was announced on 13 November 2012 by the Secretary of State for International Development. Terms of reference for the Review are at Annex A. The Review was led on DFID's behalf by Geoffrey Cole, a member of HM Diplomatic Service. Consultations were held with DFID, the Department for Business, Innovation & Skills (BIS) and the Scottish Government (ie the departments which provide funding to the CSC); the Chair and Deputy Chair of the CSC, and those Members chairing CSC working committees; the Association of Commonwealth Universities (ACU) and the British Council (ie the providers of secretariat and administrative services to the CSC) and the Foreign & Commonwealth Office (FCO – the sponsor of other Government scholarship schemes).

4. A public consultation exercise via the internet was also held, which generated eight substantive responses – from the ACU; the Commonwealth Secretariat; the Council for Education in the Commonwealth; the Chief Executive of Universities UK; the Chief Executive of Wilton Park; the Commonwealth Telecommunications Organisation; Conciliation Resources; and a former Chair of the CSC, Trudy Harpham PhD, Emeritus Professor at London South Bank University.

5. DFID would like to express gratitude to all who contributed to this Review, whether by interview or written means. All input was fully taken into account and is reflected in the report below.

The Commonwealth Scholarship Commission

6. Commonwealth Education Ministers in 1959 established the Commonwealth Scholarship and Fellowship Programme Plan (CSFP). It provides for governments to offer scholarships or career development to citizens of other Commonwealth countries, and is intended to recognise and promote the highest standards of intellectual achievement. Within the UK, the CSC was established by the Commonwealth Scholarships Act 1959 to manage the UK's contribution to the CSFP. This Act was updated by the International Development Act 2002.

7. The Act requires the CSC to select recipients of CSFP awards for study in the UK; to arrange for their placing and supervision at appropriate UK educational establishments; and to nominate UK candidates for CSFP awards granted by other countries. The CSC consists of a chairman and between nine and fourteen other members. At least four must hold high academic office. Current membership is at Annex B.

8. The CSC is primarily funded by DFID, the Department for Business, Innovation & Skills (BIS) and the Scottish Government. (Funding provided by the last two is routed through DFID so as to meet regulations on NDPB financing). Government funding of the CSC for 2012/13 currently totals about £21 million, the large bulk of which is provided by DFID and directed towards citizens of developing Commonwealth countries. BIS and the Scottish Government respectively provide about £400,000 and £50,000 for PhD studies by nationals of developed Commonwealth countries. The FCO for budgetary reasons ceased funding new awards in 2009, and its commitment is winding down as the last of its award-winners' courses come to an end. (The FCO continues to offer scholarships to Commonwealth students through the Chevening programme: see below).

9. Expenditure by the CSC over the past five years is detailed in Annex C.

10. It should be noted that UK educational establishments hosting CSC award-winners, and academics and others involved with the CSC also finance the UK's CSFP programme through part-funding arrangements, discounts and unpaid provision of services. More detail on this is set out below.

CSC functions

11. Candidates for CSC awards must be nominated by their national agencies or other bodies recognised by the CSC, eg local universities or non-governmental organisations. The CSC invites the various Commonwealth nominating bodies to put forward about three times as many applications for awards as they might reasonably expect to receive. In order to ensure that the highest academic standards are maintained, the CSC continues to resist requests by some agencies for awards quotas.

12. Under the 2002 Act, the Secretary of State "may not give any direction for the selection or rejection of any particular person for an award or as a candidate for an award". In considering nominations for awards, the CSC applies criteria – both academic, to meet the CSFP requirement to promote the highest standards of intellectual achievement, and also policy, to take account of the objectives of the funding departments. The CSC assesses the academic merit of all candidates, and the quality of their study proposals. For DFID-funded awards, the CSC then considers the likely development impact of candidate's proposals. For candidates for awards funded

by BIS and the Scottish Government, the CSC considers the prospects for a contribution to UK/Scottish academic excellence, and research collaboration between the UK/Scotland and home countries; and other long-term benefits, notably leadership prospects.

13. The CSC currently makes more than 800 new awards each year, under seven categories:

- PhD scholarships (3 years);
- Masters scholarships (1 year);
- Shared Masters scholarships (1 year, funded by the CSC and the UK host institution);
- Split-site scholarships (1 year in the UK out of a 3-year PhD course);
- Distance-learning Masters scholarships (2 years UK study from home);
- Academic fellowships (mostly 3 months, for mid-career academic staff);
- Professional fellowships (about 3 months, for mid-career professionals).

14. The CSFP at its formation established a requirement for flexibility: Commonwealth countries offering awards should take account of changing needs over time. With this in mind, the CSC keeps policy and activity under review, and has created several committees, chaired by members of the Commission, to address different aspects of its work: awards policy; monitoring & evaluation; external liaison; and finance. Awards policy has been adjusted over time. For example, the proportion of DFID's funding devoted to distance-learning has in the past ten years grown from about 3% to over 9%. Cost, as well as technological change, is a factor in determining the balance between the various awards. The table below sets out the seven categories of CSC awards funded by DFID in 2012/13, analysed by cost and awards numbers.

	PhDs	Split-site PhDs	Masters	Shared Masters	Distance Learning Masters	Academic Fellowships	Professional Fellowships	Totals
Number of awards	96	35	119	188	214	75	119	846
% of total awards	11%	4%	14%	22%	26%	9%	14%	100%
Cost (£millions)	7.7	0.9	3.2	3.1	1.7	0.7	0.7	18.0
% of total cost	43%	5%	18%	17%	9%	4%	4%	100%

15. Within the policy and financing considerations outlined above, the CSC continues to leave applicants for awards largely free to choose the subject area and location of their proposed study. Candidates from developed countries however may apply only

for PhD study, at UK institutions with which the CSC has negotiated a part-funding agreement.

16. In assessing nominations, CSC Commissioners are assisted by about 200 Academic Advisers, specialists in their fields. The Advisers grade nominations against the criteria above, and are also asked to comment on whether the applicant's choice of institution is appropriate. Advisers see only a small number of applications each year – perhaps only two or three applicants may propose study in their specialism. Final selection is determined by panels of Commissioners, who, with their wider experience and overview of the whole picture, are able to narrow down Advisers' recommendations to an equitable allocation of awards.

17. Academic Advisers are not involved in selection for distance learning or shared scholarships, on which the Commission works more closely with host universities. Nor do Advisers participate in assessment of nominations for Professional Fellowships, where academic expertise is less directly relevant.

18. In most categories of CSC awards, 90% or more of students successfully conclude their studies. Figures for distance learning awards are less reliable, but indicate a somewhat lower completion rate: about 60% gain their Master's awards, and a further 20% gain some form of formal qualification, eg a diploma. The CSC maintains links with its alumni, not least in order to enable effective evaluation of the longer-term impact of awards, a growing aspect of the CSC's work. Evidence gathered thus far indicates that the large majority of award-winners have returned to work in their home countries and have put to good use the skills gained in the UK by introducing new practices and influencing policy in their countries.

19. The CSC Chair receives a honorarium of £6000 a year in recognition of the 40 days a year he gives to CSC work. Other Commissioners give about 20 days a year, and are paid fees in respect of about 6 of these (£250 for each of the three selection panels typically attended each year). The academic advisers assisting the CSC receive no payment. The value of all this unpaid or under-paid work is difficult to estimate with precision, but could constitute an effective subsidy to the UK's CSFP programme of some £500,000 a year.

20. The CSC has no staff. Secretariat services are provided by the ACU, a UK-registered charity. The British Council (a NDPB sponsored by the FCO) currently handles the finances - purchase of air tickets, payments of students' stipends and tuition fees etc. The administrative cost of the CSC, including the above services, in 2012/13 was £1.6 million excluding VAT, constituting about 8% of total programme funding. The CSC has worked hard to bring this figure down – it stood at 12% in 2006. (For comparison, the administrative costs of the scholarship programmes of eg the Australian Government, Fulbright Commission and Ford Foundation take up 13-15% of funding).

21. The CSC has achieved administrative savings through economies in the use of ACU and British Council staff time, reduction in the ACU's rate of charge, and greater use of technology eg a switch to online applications. Further savings are expected from April 2013, when the ACU takes on all administrative/financial functions, and the British Council will focus primarily on overseas liaison with alumni and new award winners. As a result, administrative costs are expected to fall to around 6% by 2014/15.

22. The CSC has also negotiated savings on programme costs. UK universities now offer discounts of 20% on tuition fees for CSC award-winners. This saves at least £1

million a year. Since the 1980s, universities have also part-funded Shared Masters scholarships, currently saving about £2 million a year (and, for such awards, constituting an effective discount of about 40% by the universities concerned).

23. In addition to managing nominations from around the Commonwealth for study in the UK under the CSFP, as noted above the CSC also acts as the UK's nominating agency for British nationals seeking CSFP scholarships/fellowships in other Commonwealth countries. It advertises opportunities in the media and through universities and other networks, considers the applications and selects candidates for nomination. As with CSFP awards in the UK, final selection is the responsibility of the host country. Ten or so British candidates are successful each year. In 2009 Commonwealth Education Ministers set up an Endowment Fund, hoping to increase the range of countries offering CSFP awards.

Delivery options

24. It is Government policy that NDPBs should only be set up, and remain in existence, where the NDPB model can be clearly shown to be the most appropriate and cost-effective model. Triennial Reviews are therefore required to include consideration of (at least) the following options: abolition of the NDPB; moving the function out of central government; bringing it in-house; merging it with another body; delivery via a new Executive Agency; and continued delivery by a NDPB.

Abolition

25. The Coalition Government's programme includes strengthening the Commonwealth as a focus for promoting democratic values and development. It recognises the role of education in this aim. At the inception of the CSFP in 1959, the UK undertook to be the main contributor. Successive governments have maintained that original commitment, and the UK continues to provide 70-80% of all CSFP awards.

26. Commonwealth Scholarships were endorsed by the House of Commons Foreign Affairs Committee in its November 2012 report on the role and future of the Commonwealth. This concluded, *inter alia*, that "Commonwealth Scholarships are a cost-effective way of widening opportunities for young people across much of the Commonwealth. They also help the UK to achieve some important diplomatic goals." The FAC report encouraged the Government to guarantee to maintain at least the current level of spending. The Government's response to the FAC report (published January 2013 – Command Paper 8521) agreed that scholarships are important to achieving UK objectives; confirmed that the Government is maintaining the current level of funding for Commonwealth scholarships; and noted that DFID has agreed to provide £87 million for Commonwealth Scholarships for developing countries over the four-year period 2011/12 to 2014/15, representing a modest increase in real terms compared to the previous funding period.

27. Expanding access to education in poorer countries is one of the key actions DFID is taking to implement the Government's priorities. DFID's priority is access to primary education, but it increasingly recognises the development significance of higher education and research. Its support for the CSFP fits this aim - not only in enhancing research capacity and alleviating educational and skills shortages in developing Commonwealth countries, but also in enhancing equality of access to higher education in areas where women may historically have been disadvantaged.

28. Input to this Review was strongly supportive of the UK's CSFP programme, and the manner of its delivery by the CSC. It is valued by stakeholders and users for

demonstrating the important role that higher education can play in international development and public diplomacy; playing an important role in maintaining and promoting the UK's reputation as a leading provider of high quality university education; forging commercial and industrial links of benefit to UK trade and investment; and helping to create a cadre of people around the Commonwealth with a deep sympathy for UK values and our way of life.

29. It is evident from the above that a programme of Commonwealth scholarships is certain until the end of the spending review period, and likely to continue beyond, in the medium term at least. Its management will require the continuation of functions comparable to those of the CSC. The extent to which some of these current functions might be dropped or modified would seem largely to depend on whether the current principles underpinning the UK's CSFP programme are maintained.

30. A key consideration in this respect might be the extent to which the awards selection process needs to be kept at arm's length from Ministers (and thus by extension from government departments answerable to those Ministers). Current legislation specifically requires this separation. Input to the Review stressed the importance of the independence of the CSC. A typical stakeholder comment was "the present [NDPB] structure ensures independence from political pressure in making selections, which universities consider important".

31. This is not to suggest that contributors to the Review felt that government should have no say in the CSC's activities. On the contrary, retention of a governmental connection was thought by stakeholders to be beneficial. As one contributor put it: "a public body that will (a) co-ordinate with official counterparts in other Commonwealth countries, and with the inter-governmental Commonwealth Secretariat, and (b) provide a link mechanism in the UK between the main funding provider (DFID) and the academic and other institutions where Scholars and Fellows are to pursue their studies, remains an essential need for successful implementation of the programme".

32. As noted above, CSC awards policy takes full account of funding departments' interests. Officials from DFID are closely engaged in policy matters, participating in meetings of the Commission, and serving as members of key CSC committees such as those dealing with finance and evaluation. It is only the selection process that is kept separate from government, an arrangement which DFID does not seek to change.

Moving the function out of central government

(a) Privatisation

33. The CSFP was devised as an inter-governmental arrangement, in effect a series of bilateral programmes between Governments operating within a multilateral framework. A private sector body could not easily fit into this formula. As one contributor to the Review observed, "were the CSC not to be regarded as public body, relations with the government bodies that operate the [CSFP] in other Commonwealth countries would be very different". Outright privatisation therefore appears unrealistic. The CSC has in practice outsourced to the ACU (not a public body) its administrative and secretariat functions. The role of the British Council (a NDPB) in support of the CSC from April 2013 will be directed primarily to overseas liaison, taking advantage of the Council's overseas network. It would be difficult to privatise this latter function, given that few private sector bodies have external links comparable to those of the British Council.

(b) Devolution to nominating agencies

34. Commonwealth Governments' nominating agencies could be funded by the UK, for these agencies themselves to determine the award-winners and finance their UK studies. This would reduce UK costs, assuming local authorities funded their own administration; and might strengthen the impact of UK-funded awards, on the basis that each country is best placed to judge its development or leadership needs. Devolution would however involve some loss of transparency from a UK perspective, and potentially a loss of political impartiality: nominating agencies in many Commonwealth countries are contained within Government Departments. Country quotas would be inevitable, and awards would go to the best candidates from within each country, rather than the best from across the Commonwealth, contrary to CSC practice and the aim of the CSFP to promote intellectual excellence - implicitly without boundaries. It is also not clear how far UK educational establishments might be prepared to extend to Commonwealth countries the discounts currently on offer to the CSC: loss of these would add some £3 million to the bill.

35. Gender concerns might also arise. A December 2012 report (by the Commonwealth Ministerial Working Group on the Post-2015 Development Framework for Education) submitted to Commonwealth Education Ministers acknowledged that "while significant gains in gender parity in access have been made in many Commonwealth countries, achieving gender equality in learning outcomes is still distant in many countries". The CSC has sought for many years to improve the gender balance of its awards, and women now secure over 40%. This exceeds the proportion of women nominated to the CSC by many of the nominating agencies from around the Commonwealth; tending to support the conclusion of the above report, and suggesting there might be some risk, at least for the present, in devolving awards selection to recipient countries.

(c) Devolution to UK universities

36. UK educational establishments could be funded direct, and themselves handle nominations and select award-winners. This might reduce central government costs, provided the universities funded their own administration of the scheme. But awards or funding quotas to each interested establishment would be inevitable, risking damage to the CSFP's aim as noted above. Individual universities would be unlikely to be able to match the CSC's expertise in assessing the development or leadership impact of proposed studies. There was also some suggestion by stakeholders that universities, given greater control over the process, might be more inclined to employ the academic talent they had nurtured, contradicting the CSFP aim of benefitting the home countries of award-winners.

Bringing the function in-house

37. DFID could run the UK's CSFP programme as an in-house project. This might complicate BIS and Scottish Government involvement, as their funding supports developed country nationals, direct action on which might contravene DFID's statutory function. On the assumption that the awards selection process should remain at arm's length from government, DFID would need to outsource this element. Even were that assumption to be dropped, some outsourcing would still be needed, as DFID does not have the in-house expertise needed to assess academic excellence as required by the CSFP. This concern was a key theme of much input to the Review. As one stakeholder put it "the presence [on the CSC] of leading academics and university managers gives us confidence that academic rigour is being maintained, and that

funding [including that of the universities themselves] is being spent in a transparent and accountable manner”.

38. The view of most contributors to the Review was that academic input to a scholarship process run by a government department (or the private sector) would be more expensive. One contributor noted that the CSC had a high standing amongst UK universities, largely based on its ability to select candidates of high academic standing. Other intangible benefits of the CSC were addressed by several contributors. Its NDPB status, its heritage (more than 50 years), and the sense of academic ownership of the selection process were seen as important factors which enabled the CSC to draw senior-level academics into its decision-making processes, often at little or no cost. This free expertise would not be as easy to attract were the work being undertaken directly for DFID or a private sector organisation. (As noted above, the market rate for the academic input enjoyed by the CSC is perhaps £500,000 a year).

39. The CSC is liable for VAT, including in respect of services provided by the ACU and the British Council (since 2011/12, when, in accordance with new regulations on NDPB governance, DFID ceased itself to meet the ACU and British Council bills direct). VAT now totals about £300,000 a year. It could be saved were the management of the programme brought within DFID, as government departments are able to reclaim VAT on services. Impact of this on the overall public purse though would be nil, as DFID's saving would be offset by a loss by HMRC of VAT receipts.

Merger with another body

40. The Government runs two other schemes similar to the UK's CSFP: the Marshall and Chevening scholarships, both funded by the FCO. These would seem the logical choice for inclusion in any merger involving the CSFP programme.

41. Marshall scholarships were established in the 1950s, and aim to strengthen UK-US relations and promote British interests in the US by providing up to 40 scholarships for study in the UK by young Americans who will become the leaders, opinion formers and decision makers of tomorrow. Marshall scholarships are managed by the Marshall Aid Commemoration Commission (MACC), a FCO-sponsored NDPB which employs the ACU for administrative services.

42. Chevening scholarships began in 1983. They support study in the UK by individuals from around the globe who have demonstrable potential to become future leaders, decision-makers and opinion-formers. About 700 Chevening scholarships were offered last year. Management services are contracted out, and are currently provided by the ACU.

43. The Chevening scholarships scheme is perhaps more comparable to those of the UK's CSFP programme, being of a similar size and wide geographical spread. There are however important differences. The criteria for Chevening scholarships are less directly related to academic potential or attainment, and more to what might be termed political factors. Chevening's award selection process, unlike the CSC's, is not required to be at arm's length from government: the FCO and British Embassies around the world are fully involved. The public diplomacy value of the UK's CSFP programme is recognised, but the focus for DFID-funded awards (95% of the total) is primarily on academic excellence and the acquisition of specific skills that benefit development in the home country of the applicant. This requires detailed knowledge of the topics concerned, particularly for PhD study (not normally offered by Chevening or Marshall), and thus substantial academic input to the selection process.

44. Contributors to the Review were doubtful that merger with another NDPB would be beneficial. As one put it: “there is no other NDPB which could deliver in such an effective manner and also implement things like the professional networks that go on to support beneficiaries after they have gained their skills through the award”. Contributors felt that the differences in the Government’s three scholarship schemes were such that, in practice, each scheme would need to maintain different systems and decision-making processes within a merged body, rather defeating the purpose of a merger. Even then, each scheme would still suffer some loss of identity, contributors believed – a particular concern for international scholarships, which depend on recognition and prestige for their effectiveness.

45. The ACU provides secretariat and administrative support services to all three of the Government’s scholarship schemes. In no case however is the ACU itself directly responsible for scheme management and awards selection. Were responsibility for the UK’s CSFP scheme to be transferred in its entirety to the ACU, the need for substantial academic input would remain, as the ACU’s wide experience and expertise does not extend to this. Thus, the same question addressed in the options above would arise: how far would UK academics and universities be ready to offer services and discounts at rates currently enjoyed by the CSC?

Delivery via a new Executive Agency

46. An Executive Agency is defined as “a part of a government department which enables executive functions within government to be carried out by a well-defined business unit with a clear focus on delivering specified outputs within a framework of accountability to ministers.” A NDPB is “a body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm’s length from ministers”. Input to the Review strongly favoured retention of NDPBs’ arm’s length arrangements. The cost of setting up an Executive Agency is significant, and not usually justified where fewer than 100 staff are involved. The option is therefore not considered further here.

Continued delivery by the CSC

47. Before a Triennial Review may conclude that retention of a NDPB is the best course, the NDPB’s function must pass one of three tests: is it a technical function needing external expertise to deliver; or does it need to be (and seen to be) delivered with absolute political impartiality (such as certain regulatory or funding functions); or does it need to be delivered independently of Ministers to establish facts and/or figures with integrity?

48. Evidence given to the Review strongly suggested that the first of these Tests is met by the CSC. The level of academic expertise required to assess thousands of study proposals of a specialised nature does not exist within DFID, nor probably in any other central government department: one typical stakeholder observation concerned the “..... wide range of specialisms within the Commission, with the various commissioners having their own extensive range of contacts”.

49. The second Test concerning political impartiality is discussed above, at the end of the section headed “delivery options – abolition”. As noted there, legislation currently requires the awards selection process to be independent of Ministers, a principle strongly supported by those contributing to this Review. As one stakeholder put it, “the essence of CSC awards is that selection is indeed independent of Ministers – and that all decisions are free from political interference. It is crucial that we maintain this, not

only because it is the right thing to do, but also so that we can encourage all participating governments to do likewise". On this basis, the CSC would appear to meet the second Test.

Conclusion

50. The evidence gathered in this Review demonstrates that the CSC meets the statutory and technical requirements for delivery of the UK's CSFP programme. Its functions will be needed for the foreseeable future. It has developed a diverse portfolio of awards which it keeps under regular review. It runs a sound selection process drawing upon wide expertise. Evaluation and monitoring of the impact of CSC awards is developing well, and indicates a good level of achievement.

51. The CSC is cost-effective: 92% of its funding is spent on the scholarships and fellowships programme itself, and only 8% (and falling) on support functions. Evidence to the Review suggested that any successor body would struggle to reach such a level of efficiency. This is particularly true with regard to the rates and discounts which the CSC, through its high standing in the academic community, has been able to negotiate. The CSC commands strong support and respect amongst stakeholders within the UK and the Commonwealth.

52. There are one or two aspects concerning the governance of the CSC which could be tightened in order better to meet best practice. These are not discussed in this first Stage of the Review, as being more relevant to the second Stage.

53. In conclusion, the Review recommends that the CSC be retained as an Executive NDPB.

Terms of Reference, Triennial Review of the Commonwealth Scholarship Commission

The review of the Commonwealth Scholarship Commission in the UK to provide a robust challenge for the continuing need for the NDPB – both its function and its form:

This will include:

- To identify and examine the key functions of the NDPB.
- To assess how the functions contribute to the core business of the NDPB and the Government and/or sponsor Department and consider whether the functions are still needed.
- If the function is still needed, to consider what is the best option for delivery.
- To consult with appropriate stakeholders during a 4-week consultation period.
- To submit a draft report, detailing the Review Team's findings and recommendations to United Nations and Commonwealth Department, DFID before 31 January 2013.

Commonwealth Scholarship Commission: Commission members

Professor Tim Unwin (Chair)

Secretary General of the Commonwealth Telecommunications Organisation; and Emeritus Professor of Geography and UNESCO Chair in ICT4D at Royal Holloway, University of London

Professor Mark Cleary (Deputy Chair)

Vice-Chancellor and Principal, University of Bradford

Richard Burge

Chief Executive of Wilton Park

Anthony Cary CMG

Former British High Commissioner to Canada and British Ambassador to Sweden

Professor Lorna Casselton CBE, DSc, FRS

Emeritus Professor of Fungal Genetics, Department of Plant Science, University of Oxford

Professor Graham Furniss FBA

Pro-Director (Research and Enterprise), School of Oriental and African Studies, University of London

Professor Christine Humfrey MBE

Special Professor, University of Nottingham; Visiting Fellow, Edge Hill University; and independent consultant in international higher education

Professor Nyovani Madise

Professor of Demography and Social Statistics and Associate Dean (Research and Enterprise), Faculty of Social and Human Sciences, University of Southampton

Kathy Mansfield

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Richard Middleton

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Ros Wade

Director, Education for Sustainability Programme, and Associate Director, Centre for Cross-Curricular Initiatives, London South Bank University

Professor Jonathan Wastling

Head, Department of Infection Biology, Institute of Infection and Global Health, University of Liverpool

Annex C**UK CSFP scheme: expenditure 2008/9 to 2012/13**
(£ millions)

	2008/9	2009/10	2010/11	2011/12	2012/13 (forecast)
Programme activity:					
DFID	14.42	15.56	15.83	16.20	18.35
FCO	2.0	1.19	0.42	0.10	0.02
BIS	-	0.35	0.52	0.35	0.39
Scottish Government	-	-	-	0.03	0.05
Total programme exp.	16.42	17.10	16.77	16.68	18.81
Management fees:					
ACU	0.94	0.98	0.95	1.0	0.90
British Council	0.70	0.65	0.63	0.66	0.60
Other administrative costs	0.18	0.16	0.14	0.11	0.13
VAT	-	-	-	0.33	0.31
Total administrative exp.	1.82	1.79	1.72	2.1	1.94

Total CSFP scheme exp.	18.24	18.89	18.49	18.78	20.75

Stage 2

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1 Executive Summary

1.1 Introduction and background

The Commonwealth Scholarship Commission (CSC) is an executive Non-Departmental Public Body (NDPB) sponsored by the Department for International Development (DFID). It is Government policy that an NDPB should remain in existence only where it can be clearly evidenced as the most appropriate and cost-effective way of delivering the function in question. NDPBs are, therefore, subject to review every three years.

Triennial reviews have two stages. Stage one involves examination of the key functions of the NDPB; assessment of how they contribute to the core business of the NDPB and the sponsoring department; and consideration as to whether they are still needed. If that remains the case, the review goes on to consider how the functions might best be delivered by examining a range of options. Where stage one concludes that the NDPB in question should remain, stage two examines its control and governance arrangements to ensure that it is operating in line with recognised principles of good corporate governance.

Stage one of the triennial review determined a requirement for the functions of the CSC and that the CSC should continue as an executive NDPB. This report is a stage two review of the CSC that looks to assess and confirm the appropriateness of the governance arrangements of the CSC. That is, what arrangements are currently in place to ensure that the CSC delivers its functions effectively and that DFID, as the sponsoring department, has sufficient oversight.

The 'comply or explain' approach is the standard approach to corporate governance in the United Kingdom (UK). In keeping with this approach, DFID's Internal Audit Department (IAD) has applied the Cabinet Office's guidance and structured this report around key areas covering statutory accountability; accountability for public money; Ministerial accountability; the role of the sponsoring department; the role of the board and the role of the chair; the role of the non-executive board members; effective financial management; communication with the stakeholders; and the code of conduct of the CSC.

1.2 Purpose of this report

This review provides assurance on the control and governance arrangements in place to ensure that the public body is operating in line with the recognised principles of good governance. It is delivered within the terms of reference set out in Appendix 1 – Terms of Reference on page 16.

1.3 Conclusion

This review notes the position of the CSC as having previously worked towards DFID's programme delivery control standards at the instruction of DFID and the CSC's progress towards working towards NDPB governance standards.

This review has concluded, however, that the CSC's governance arrangements require enhancement to fully meet NDPB standards – however, we note that the CSC and DFID have been in discussion about several of the requirements and CSC has previously produced draft documentation in key areas, although it had been agreed that further action on these would not be taken until the stage 1 and 2 reviews were complete. The IAD has not identified any specific concerns during its review over the CSC's delivery and operational decisions. The specific areas of enhancement are required to fully meet guidance provided in *Managing Public Money* (HM Treasury, 2007). The key suggestions for enhancement are:

□ **Programme and NDPB controls** – The mix of programmatic / NDPB controls should be replaced with regular sponsorship controls. Central to the effectiveness of the NDPB, sponsorship controls should be set out in a framework document including

sufficient reporting to DFID to assess the effectiveness of the CSC's activities and programmes. (Ref. paragraph 2.3.1)

- **Archives** – An application should be made to the National Archives to pursue compliance with the Public Records Acts. (Ref. paragraph 2.1.6)
- **Accounting officer** – The Executive Secretary (the most senior person in the Executive) should be established as the Accounting Officer (AO). (Ref. paragraph 2.2.1)
- **Internal audit** – DFID's IAD should provide the internal audit function for the CSC, and the details of this arrangement should be captured in the framework document. (Ref. paragraphs 2.2.2)
- **External audit** – The National Audit Office (NAO) should be approached to carry out a risk assessment of the audit requirements of the CSC with a view to carrying out the external audit role for the CSC – this will ensure that the CSC fully complies with HMT's guidance for the production of the annual accounts process, including a governance statement. We understand that the Cabinet Office may undertake a wider review of the CSC and Marshall Aid Commemoration Commission (MACC) and therefore the NAO risk assessment of the audit arrangements could feed into that review (Ref. paragraphs 2.2.3-5, 2.7.8).
- **Link to DFID NEDs** – The CSC Chair would benefit from having a direct link to a DFID Non-executive Director (NED), possibly the chair of the DFID Audit Committee. (Ref. section 2.5)
- **CSC-DFID reporting** – The DFID Executive Management Committee and DFID's Accounting Officer should receive a regular update on the CSC at least annually around the time of the annual report (including the governance statement). (Ref. paragraphs 2.2.3-4)
- **Sponsorship resourcing** – The DFID sponsor team should consider whether it has sufficient resources to manage the relationship with the CSC. (Ref. paragraph 2.3.9)
- **Decision-making powers** – The decision-making powers of the full Commission should be detailed in the framework document. (Ref. paragraph 2.4.2)
- **Chairperson role evaluation** – The role of the Chair should be evaluated on a yearly basis. (Ref. paragraph 2.4.7)
- **Chair and Commissioners' roles and responsibilities** – The role and responsibilities of the Chair and the Commissioners should be formally set out in the framework document and in their respective appointment letters. (Ref. sections 2.4-2.6)
- **Annual report** – The annual report should contain a governance statement and the accounts should be in a suitable format to enable the performance of an external audit. (Ref. paragraphs 2.2.3-4)
- **Counter fraud** – A fraud and whistleblowing policy and fraud reporting contacts should be established. DFID's fraud hotline, run by the DFID IAD's Counter Fraud and Whistleblowing Unit (CFWU), could potentially be used for this purpose. (Ref. paragraph 2.7.4)
- **Complaints processes** – The complaints contact details should be made more easily available on the CSC's external website. (Ref. paragraph 2.8.3)
- **MP contact** – The sponsor team should provide further guidance on contact with opposition MPs. (Ref. paragraphs 2.9.1 and 2.9.5)
- **Expenditure transparency** – The sponsor team should provide the CSC with details on how to comply with publishing expenditure (DFID publishes all expenditure over £500). (Ref. paragraph 2.8.2)

In the draft report, the IAD suggested that future triennial reviews of the CSC also includes a similar government scholarship scheme, the Marshall Aid Commemoration Commission (MACC), which is funded by the FCO with the secretariat and administrative support functions of the government scholarship schemes staffed and delivered via the Association of Commonwealth Universities (ACU). We note that the

FCO also administers the Chevening Scholarships as a standalone project. We have recently become aware that there is a potential wider review of all the above schemes being instigated by the Cabinet Office, and DFID and the CSC shall await the terms of reference for the review whilst progressing with the implementation of the recommendations.

In the meantime, DFID's IAD will consult with the FCO's internal audit function on the potential to reduce transaction costs in relation to the provision of internal audit services for the CSC and MACC.

1.4 Report distribution

The report will be distributed to the relevant parties as specified in the IAD's terms of reference (see p.16). A final version will be submitted to DFID's Audit Committee. Prior to finalisation, a draft of the report will be circulated to the sponsor team (including the Scottish Government and the UK's Department for Business, Innovation and Skills) and the CSC for comments on factual accuracy. 5 of 17

2 Findings

This review is structured around the recognised principles of good corporate governance as mandated by the Cabinet Office in their document *Guidance on reviews of non-departmental public bodies* (Cabinet Office – June 2011).

2.1 Statutory accountability

Principle – The public body complies with all applicable statutes and regulations, and other relevant statements of best practice.

2.1.1 *Does CSC comply with all statutory and administrative requirements on the use of public funds? This includes the principles and policies set out in the HMT publication “Managing Public Money” and Cabinet Office/HM Treasury spending controls.*

Yes for statutory requirements. Administrative requirements are also in place, including a bank account set up under the government banking service contract, grant in aid arrangements and reporting on expenditure, however, there are a few unorthodox arrangements, such as no formal Accounting Officer responsibilities or framework document, although a number of requirements that could be within the framework documents are contained in programme documents.

2.1.2 *Does the CSC operate within the limits of its statutory authority and in accordance with any delegated authorities agreed with DFID?*

The CSC operates within the terms of the Commonwealth Scholarships Act 1959 and International Development Act 2002. There are delegated authorities set out in guidance notes, however, formal delegated authorities do need to be set out in a framework document.

2.1.3 *Does the CSC operate in line with the statutory requirements and spirit of the Freedom of Information Act 2000?*

The CSC operates within the terms of the Commonwealth Scholarships Act 1959 and in line with the Freedom of Information Act 2000, as set out in the Memorandum of Understanding (MoU) between the CSC and DFID at paragraph 11.4 (these requirements should be contained within a framework document).

2.1.4 *Does the CSC have a comprehensive publication scheme through which it proactively releases information that is of legitimate public interest, where this is consistent with the provisions of the Act?*

The CSC has a publication scheme which details how they are complying with the Freedom of Information Act 2000, setting out the classes of information published.

2.1.5 *Does the CSC comply with Data Protection legislation?*

Yes. The MoU between the CSC and the ACU details how it restricts confidential information although it does not specifically state how it complies with data protection legislation. The CSC completes an annual assurance report, however, on how they comply with the Data Protection Act. CSC UK is registered with the Information Commissioners Office (again, these requirements should be set out within the framework document).

2.1.6 *Is the CSC subject to the Public Records Acts 1958 and 1967?*

The CSC is registered with the Information Commissioners Office and has made a registration request to the National Archives although not specifically about compliance with the public records acts. The IAD suggests that the CSC make an application to the National Archives to establish if they should be subject to the Public Records Acts.

□ **Recommendation: Archives** – An application should be made to the National Archives to pursue compliance with the Public Records Acts.

2.2 Accountability for Public Money

Principle - The Accounting Officer of the public body is personally responsible and accountable to Parliament for the use of public money by the body and for the stewardship of assets.

2.2.1 *Is there a formally designated Accounting Officer for the CSC? This is usually the most senior official (normally the Chief Executive).*

No, The Executive Secretary (the most senior person in the Executive) should be established as the Accounting Officer.

□ **Recommendation: Accounting officer** – DFID should appoint the Executive Secretary (the most senior person in the Executive) as the Accounting Officer (AO).

2.2.2 *Are the role, responsibilities and accountability of the Accounting Officer clearly defined and understood?*

The Accounting Officer should have received appropriate training and induction. The Accounting Officer of the NDPB has a responsibility to provide evidence-based assurances required by the Principal Accounting Officer (PAO). The PAO requires these to satisfy him or herself that the Accounting Office responsibilities are being appropriately discharged. This includes, without reservation, appropriate access of the PAO's internal audit service into the NDPB.

As above, there is not a formally appointed Accounting Officer for the CSC. The CSC has prepared a draft Accounting Officer letter and the IAD suggests DFID formalises the AO arrangement with the most senior person in the CSC secretariat. Currently, the DFID Accounting Officer retains responsibility as the Accounting Officer for the CSC. HM Treasury's Internal Audit Transformation Programme, led by HM Government's (HMG) head of profession has notified all government departments about a move to a single provider of internal audit services on a group basis by the relevant host government department. All departments' audit committees and permanent secretaries are being asked to move in this direction. DFID's Internal Audit Department (IAD) has written to the CSC outlining these developments and the IAD suggests that the internal audit arrangements are captured in the framework document.

□ **Recommendation: Internal audit** – DFID's Internal Audit Department (IAD) should provide the internal audit function for the CSC, and the details of this arrangement should be captured in the framework document.

2.2.3 *Does the CSC have in place appropriate arrangements to ensure that public funds satisfy the required criteria? ie are properly safeguarded; used economically, efficiently and effectively; used in accordance with the statutory or other authorities that govern their use; and deliver value for money for the Exchequer as a whole.*

The requirements are in place to ensure public funds are safeguarded and provide value for money. As above, however, there are a few unorthodox arrangements such as no formal Accounting Officer responsibilities established, no framework document, and external audits that fall short of HMT Guidance.

The external audit arrangements currently fall short of HMT standards as the CSC has not previously been required to produce accounts that are subjected to a full external audit. The framework document should set a requirement to produce an annual report containing financial statements, which can be subject to external audit. The annual report also does not have a governance statement. The CSC prepared a governance statement in 2011-12 but as they were not requested to do so they have not completed a governance statement for 2012-13.

2.2.4 *Are the CSC accounts laid before Parliament? Are NAO the external auditor for the body?*

The CSC has an annual report which is laid before parliament under the requirements of the Commonwealth Scholarships Act 1959 rather than the Government Resources and Accounts Act 2000. The annual report does not have annual accounts, instead it has an income and expenditure account that is independently reviewed by an external audit firm. The external audit firm prepares a formal letter detailing what tests they have completed. The reason this falls short of usual acceptable external audit standards is that the format does not meet the requirements of International Financial Reporting Standards as adopted and implemented by HM Treasury for government departments. Subsequent to this external review and prior to consolidating this expenditure into DFID's Annual Report and Accounts, which is subject to external audit by the NAO, the Financial Accountant in DFID performs extra checks – reconciling the cash flow to bank statements, re-performing the latest bank reconciliation and cross refers the payments from DFID sponsor team to DFID's General Ledger (Aries).

There is no statutory requirement for the NAO to certify the accounts of the CSC, however, the NAO can be requested by a body to perform the external audit arrangements and once the NAO have carried out an appropriate risk assessment, the NAO can agree to carry out the audit on an 'Agreement' basis. This would make sense given that NAO currently perform the external audit for MACC. We have recently become aware of a potential wider review by the Cabinet Office into CSC and MACC and recommend that the NAO risk assessment of the audit requirements become part of that review.

□ **Recommendation: CSC-DFID reporting** – The DFID Executive Management Committee and DFID's Accounting Officer should receive a regular update on the CSC at least annually around the time of the annual report (including the governance statement).

□ **Recommendation: Annual report** – The annual report should contain a governance statement and the accounts should be in a suitable format to enable the performance of an external audit.

2.2.5 Have the Comptroller and Auditor General been established as the external auditor for the body?

As above, the IAD suggests that the NAO be approached to become the external auditor for the body.

□ **Recommendation: External audit** – The National Audit Office (NAO) should be approached to carry out the external audit role for the CSC, enabling the CSC to comply fully with HMT guidance for the production of the annual accounts process, including a governance statement. Any potential risk assessment of the audit requirements by the NAO should be timed to coincide with the potential Cabinet Office wider review.

2.3 Ministerial Accountability

Principle – The Minister is ultimately accountable to Parliament and the public for the overall performance of the public body.

2.3.1 Do the Minister and sponsoring department exercise appropriate scrutiny and oversight of the CSC?

Yes, the sponsoring department programme managers and deputy programme managers attend full Commission meetings, as well as evaluation and finance committees. The sponsorship controls to date, however, have been a mix of programmatic controls (subject to business cases, logframes and annual reviews) operating in an NDPB structure. The IAD suggests that the programmatic controls be stopped and formal NDPB sponsor arrangements be put in place, as outlined above with a framework document established.

□ **Recommendation: Programme and NDPB controls** – The mix of programmatic / NDPB controls should be replaced with regular sponsorship controls. Central to the effectiveness of the NDPB, sponsorship controls should be set out in a framework document and include sufficient reporting to DFID to assess the effectiveness of the CSC’s activities and programmes.

2.3.2 *Are appointments to the Commission made in line with any statutory requirements and, where appropriate, with the Code of Practice issued by the Commissioner for Public Appointments? The Minister will normally appoint the Chair and all non-executive board members of the public body and be able to remove individuals whose performance or conduct is unsatisfactory. The Minister should be consulted on the appointment of the Chief Executive and will normally approve the terms and conditions of employment.*

The Commissioners are appointed by DFID, with support from the Office of the Commissioner for Public Appointments (OPCA). The Secretary of State approves the appointments of the Chair and the Commissioners.

As above, there is currently no Chief Executive for the CSC and the CSC has no staff with all functions carried out under service level agreements with contractors. However, the senior person in the Executive, the Executive Secretary, fulfils the role although he is not formally appointed.

2.3.3 *The Minister will normally appoint the Chair and all non-executive board members of the public body and be able to remove individuals whose performance or conduct is unsatisfactory?*

The Secretary of State formally signs off the appointments of the Chair and the Commissioners – all of which follow the OPCA guidance.

2.3.4 *Does the Minister meet the Chair and/or Chief Executive on a regular basis?*

There have been various meetings with Ministers over the last few years and meetings will continue to be arranged as necessary.

2.3.5 *Are there in place a range of appropriate controls and safeguards to ensure that the Minister is consulted on key issues and can be properly held to account?*

These will normally include:

a. a requirement for the public body to consult the Minister on the corporate and/or operational business plan;

b. a requirement for the exercise of particular functions to be subject to guidance or approval from the Minister;

c. a general or specific power of Ministerial direction over the public body;

d. a requirement for the Minister to be consulted by the public body on key financial decisions. This should include proposals by the public body to: (i) acquire or dispose of land, property or other assets; (ii) form subsidiary companies or bodies corporate; and (iii) borrow money; and

e. a power to require the production of information from the public body which is needed to answer satisfactorily for the body’s affairs

The Minister approves all appointments and the annual report prior to the report being laid in parliament. In addition, as the sponsorship arrangements were a mix of programmatic controls, the Minister was also consulted over the business case approval. There is no specific Ministerial direction in place. The current MoU does not detail specifically on these requirements, but as stated above a framework document will be put in place which will include the areas that Ministers need to be consulted.

2.3.6 *Is there in place a requirement to inform Parliament of the activities of the public body through publication of an annual report?*

The MoU refers to the need to follow HMT guidance but not specifically on the procedures for the annual report being laid before parliament, although this is covered in the act of parliament. The annual report is laid before parliament each year and this requirement will be set out in the framework document.

2.3.7 *Does the departmental board's regular agenda include scrutiny of the performance of the public body? (The departmental board should establish appropriate systems and processes to ensure that there are effective arrangements in place for governance, risk management and internal control in the public body).*

No. The CSC is a low risk to DFID overall. DFID's Executive Management Committee (EMC) may scrutinise the CSC's performance if the EMC feels it necessary or appropriate to do so. Whilst this is unlikely to be a regular agenda item, the IAD suggests that the CSC update the EMC at the time of writing the CSC annual report and/or governance statement. (See recommendation under paragraph 2.2.4.)

2.3.8 *Is there a Framework Document in place which sets out clearly the aims, objectives and functions of the public body and the respective roles and responsibilities of the Minister, the sponsoring department and the public body?*

This should follow relevant Cabinet Office and HM Treasury guidance. The framework document should be published. It should be accessible and understood by the sponsoring department, all board members and by the senior management team in the public body. It should be regularly reviewed and updated

No. As above, the control arrangements were unorthodox, consisting of a mix of programmatic and NDPB controls and this review suggests that the sponsorship arrangements move to regular sponsorship type arrangements of the CSC with a framework document established.

2.3.9 *Is there a dedicated sponsor team within the Department for International Development? The role of the sponsor team should be clearly*

Specific roles and responsibilities of the sponsor team are included in the MoU with the CSC. The roles and responsibilities will also be included in the framework document. The sponsorship role is under resourced, being approximately 75% of a Higher Executive Officer's (HEO) post and around 10% of a Grade 7 post.

Recommendation: Sponsorship resourcing – The DFID sponsor team should consider whether it has sufficient resources to manage the relationship with the CSC.

2.3.10 *Is there regular and ongoing dialogue between UNCD and the CSC? Senior officials from the sponsoring department may as appropriate attend board and/or committee meetings. There might also be regular meetings between relevant professionals in the sponsoring department and the public body.*

Yes (as above) programme managers and deputy programme managers attend full Commission meetings, as well as evaluation and finance committees. In addition the Deputy Director of the sponsor team has attended organised events.

2.4 Role of the Board

Principles – the public body is led by an effective board which has collective responsibility for the overall performance and success of the body. The board provides strategic leadership, direction, support and guidance.

The board – and its committees – have an appropriate balance of skills, experience, independence and knowledge.

There is a clear division of roles and responsibilities between non-executive and executives. No one individual has unchallenged decision-making powers.

2.4.1 *Has the board of the CSC been formed such that it can meet the requirements? The board of the public body should meet regularly; retain effective control over the body; and effectively monitor the senior management team. The size of the board should be appropriate, with Board members drawn from a wide range of diverse backgrounds. Board members and senior staff should show leadership by conducting themselves in accordance with the highest standards of personal and professional behaviour and in line with the principles set out in respective Codes of Conduct.*
Yes, the full Commission meets three times per year. The full Commission is 15 members with a wide range of backgrounds, although most from academia. The Commissioners comply with a code of conduct.

2.4.2 *Does the board have in place a framework of strategic control (or scheme of delegated or reserved powers)?*

This should specify which matters are specifically reserved for the collective decision of the board. This framework must be understood by all board members and by the senior management team. It should be regularly reviewed and refreshed.

Yes. There is a governance paper on membership and committees. It details the composition of the committees but does not state what matters are specifically reserved for the collective decision making of the board – this detail will be included in the draft of the framework document. There are five committees (each with a terms of reference) that meet three times per year and report to the full Commission. The Commission committees are:

- Audit and risk management committee.
- Awards policy committee.
- Evaluation and monitoring committee.
- External liaison committee.
- Finance committee.

In addition, the Committee Chairs, together with the Commission Chair and Deputy Chair, compromise an Executive Group which is available to deal with urgent matters between full Commission meetings.

Recommendation: Decision-making powers – The decision-making powers of the full Commission should be detailed in the framework document.

2.4.3 *Has the Board established formal procedural and financial regulations to govern the conduct of its business? As above, there is a formal committee structure, with separate finance and audit committees. The Chair of the finance committee meets the Head of Operations every month – the Commission meets formally twice per year. There is also a financial governance guidance note (May 2013) setting out financial authorities.*

2.4.4 *Does the Board have in place appropriate arrangements to ensure that it has access to all such relevant information, advice and resources as is necessary to enable it to carry out its role effectively?*

The Board should make a senior executive responsible for ensuring that appropriate advice is given to it on all financial matters.

As above, the Chair of the finance committee meets the Head of Operations every month – the Commission meets formally three times per year. And as detailed above, the most senior executive should be assigned the role of Accounting Officer.

2.4.5 *Does the Board have in place a senior executive responsible for ensuring that Board procedures are followed and that all applicable statutes and regulations and other relevant statements of best practice are complied with?*

Yes. The Executive Secretary fulfils this role with considerable oversight of the Chair. As detailed above, the most senior executive should be assigned the role of Accounting Officer.

2.4.6 *Does the Board have in place a remuneration committee to make recommendations on the remuneration of top executives? Information on senior salaries should be published. The Board should ensure that the body's rules for recruitment and management of staff provide for appointment and advancement on merit.*

The Chief Executive should be accountable to the Board for the ultimate performance of the public body and for the implementation of the Board's policies. He or she should be responsible for the day-to-day management of the public body and should have line responsibility for all aspects of executive management.

The Secretariat staff are employees of the Association of Commonwealth University (ACU) and therefore operate on the ACU pay scales - therefore remuneration is ultimately decided by the ACU and paid for by the CSC in an administration charge. The Chair receives an honorarium of £6,000 per year. Other Commissioners are non-salaried and receive only travel and out of pocket expenses, plus an honorarium of £250 for each selection meeting in which they participate (typically 2 per year). In addition, the British Council is contracted to provide specific services, mostly relating to alumni and in-country activities.

2.4.7 *Is there in place an annual performance evaluation process? This should evaluate the performance of the board and its committees, as well as the Chair and individual board members.*

The Chair is responsible for assessing the performance of non-executive board members, essentially:

- Year one informal chat with chair.
- Year two completion of review and formal discussion with chair.

The evaluation of the chair is via the executive Group who circulate a performance evaluation, this is only completed at the time of reappointment and the IAD suggests that this moves to a yearly evaluation.

Recommendation: Chairperson role evaluation – The role of the Chair should be evaluated on a yearly basis.

2.5 Role of the Chair

Principle – The Chair is responsible for leadership of the board and for ensuring its overall effectiveness.

2.5.1 *Is the board led by a non-executive Chair appointed by a formal, rigorous and transparent process?*

This should be compliant with the Code of Practice issued by the Commissioner for Public Appointments. The Chair should have a clearly defined role in the appointment of non-executive board members.

Yes, as above, the recruitment process fully complies with the OCPA process.

2.5.2 *Are the duties, role and responsibilities, terms of office and remuneration of the Chair set out clearly and formally defined in writing?*

Terms and conditions must be in line with Cabinet Office guidance and with any statutory requirements.

As above, the Chair's role and Commissioners role and responsibilities are not formally set out in appointment letters, but through review of the various governance structures, the roles and responsibilities are understood and systems are in place for the Chair and

the Commissioners to carry out their duties. The framework document will set out the roles and responsibilities.

□ **Recommendation: Link to DFID NEDs** – The CSC Chair would benefit from having a direct link to a DFID Non-executive Director (NED), possibly the chair of the DFID Audit Committee.

2.6 Role of the non-executive board members

Principle – As part of their role, non-executive board members provide independent and constructive challenge.

2.6.1 *Is there in place a formal, rigorous and transparent process for the appointment of non-executive members of the board?*

This should be compliant with the Code of Practice issued by the Commissioner for Public Appointments.

Yes, as above, the recruitment process for Chair and Commissioners is fully compliant with the OPCA.

2.6.2 *Are all non-executive Board members properly independent of management?*

Yes, although Commissioners participate in the selection of scholars (after an initial sift by the executive) – it is essential for the Commissioners with academic experience to be able to assess the candidates. The Commissioner who chairs the finance committee meets monthly with the Heads of Operations and reviews key financial operations. This is indicative of a good control environment. The five committees consist of Commissioners that are independent of the CSC executive.

2.6.3 *Are all non-executive board members able to allocate sufficient time to the board to discharge their responsibilities effectively?*

Yes, there is a record of attendance for all Commissioners.

2.6.4 *Is there in place a proper induction process for new board members?*

This should be led by the Chair. There should be regular reviews by the Chair of individual members' training and development needs.

Yes, there is a one day induction meeting and each new Commissioner is provided with a Commissioners handbook that sets out the all the key information that they require to carry out their role.

□ **Recommendation: Chair and Commissioners' roles and responsibilities** – The role and responsibilities of the Chair and the Commissioners should be formally set out in the framework document and in their respective appointment letters.

2.7 Effective Financial Management

The public body has taken appropriate steps to ensure that effective systems of financial management and internal control are in place.

2.7.1 *Does the CSC publish, on a timely basis an objective, balanced and understandable annual report?*

The report must comply with HM Treasury guidance.

The annual report should include a statement on the effectiveness of the body's systems of internal control (Governance statement).

Yes, as above, an annual report is produced although it does not fully comply with HMT requirements with regards to financial statements or internal controls.

2.7.2 *Has the CSC taken steps to ensure that effective systems of risk management are established as part of the systems of internal control?*

The public body must have taken steps to ensure that an effective internal audit function is established as part of the systems of internal control. This should operate to Public Sector Internal Audit Standards and in accordance with Cabinet Office guidance.

Yes, a risk register is established and the audit and risk committee has oversight over risk management and the control environment. As above, the Internal Audit function is in the process of being established.

2.7.3 *Are there in place appropriate financial delegations?*

These should be understood by the sponsoring department, by board members, by the senior management team and by relevant staff across the public body. Effective systems should be in place to ensure compliance with these delegations. These should be regularly reviewed.

As above, there is a formal committee structure, with separate finance and audit committees. The Chair of the finance committee meets the Head of Operations every month – the Commission meets formally twice per year. There is also a financial governance guidance note (May 2013) setting out financial authorities.

2.7.4 *Are there in place effective anti-fraud and anti-corruption measures?*

There is a Risk/Audit Committee, an anti-bribery policy and a gifts and hospitality register in place. There are no fraud reporting details on the CSC website and the IAD suggests fraud reporting is strengthened with the DFID IAD's Counter Fraud and Whistleblowing Unit being established as a fraud hotline contact point for all allegations of fraud.

Recommendation: Counter fraud – A fraud and whistleblowing policy and fraud reporting contacts should be established. DFID's fraud hotline, run by the DFID IAD's Counter Fraud and Whistleblowing Unit (CFWU), could potentially be used for this purpose.

2.7.5 *Are there in place clear rules governing the claiming of expenses (and are these published), and effective systems in place to ensure compliance with these rules?*

Yes, the expenses policy is publicly available on the external website.

2.7.6 *The annual report should include a statement on the effectiveness of the body's systems of internal control?*

The annual report does not comply with HM Treasury guidance as it assesses performance only and does not have the contents of the governance statement. As above, the CSC will be required in future to fully comply with the HM Treasury guidance for the production of the annual accounts processes, including a mandatory governance statement.

2.7.7 *Has the board established an audit (or audit and risk) committee with responsibility for the independent review of the systems of internal control and of the external audit process?*

Yes, there is an audit and risk management committee that oversees the independent review of the systems of internal control and the external audit process.

2.7.8 *Has the CSC taken steps to ensure that an objective and professional relationship is maintained with the external auditors?*

As above, the NAO are not the external auditor and the annual report does not currently have a set of annual accounts, instead it has an income and expenditure account that is independently reviewed by an external audit firm. The external audit firm prepare a formal letter detailing what tests they have completed and the reason that this falls short of an acceptable external audit is that the format does not meet the requirements of International Financial Reporting Standards as adopted and

implemented by HM Treasury for government departments. Subsequent to this external review and prior to consolidating this expenditure into DFID's annual report and accounts, which is subject to external audit by the NAO, the Financial Accountant in DFID performs extra checks, reconciling the cash flow to bank statements, re-performing the latest bank reconciliation and cross refers the payments from DFID sponsor team to DFID's general ledger (Aries). Up until CSC operated the Government Bank Account (last year), additional assurance was provided through the audits of the British Council and the ACU.

The NAO are not the external auditor and to date they have been prepared to accept the arrangements in place, primarily due to the CSC being considered low risk due to the nature of their activities and level of expenditure as a proportion of DFID's overall budget. However, the IAD suggests that the NAO become the external auditor for the CSC.

2.8 Communication

Principle – The Public Body is open, transparent, accountable and responsive.

2.8.1 *Has the CSC identified its key stakeholders, and established clear and effective channels of communication with these stakeholders?*

Yes, the stakeholders are mapped out in the annual report.

2.8.2 *Has the CSC made an explicit commitment to openness in all its activities? It should engage and consult with the public on issues of real public interest or concern. This might be via new media. It should publish details of senior staff and board members together with appropriate contact details. The public body should consider holding open board meetings or an annual open meeting. The public body should proactively publish agendas and minutes of board meetings. The public body should proactively publish performance data. Details of board attendance should be published (with an accompanying narrative as appropriate). The rules governing claiming of expenses should be published).*

Yes, as outlined above, the CSC has a commitment to openness via its publication policy. They have never had a public meeting although agendas and minutes of board meetings are available on request. Performance data is available on the annual report that is published although details of board attendance is kept but not published.

The CSC advised that they are waiting on DFID advice about publishing expenditure.

Recommendation: Expenditure transparency – The sponsor team should provide the CSC with details on how to comply with publishing expenditure (DFID publishes all expenditure over £500).

2.8.3 *Does the CSC have in place effective correspondence handling and complaint procedures?*

These should make it simple for members of the public to contact the public body and to make complaints. Complaints should be taken seriously. Where appropriate, complaints should be subject to investigation by the Parliamentary Ombudsman (this requires the body to be listed in the Parliamentary Commissioner act 1967). The public body should monitor and report on its performance in handling correspondence.

Yes, however the complaints contact details are not easily available on the external website.

Recommendation: Complaints processes – The complaints contact details should be made more easily available on the CSC external website.

2.8.4 *Does the CSC comply with the Government's conventions on publicity and advertising?*

These conventions must be understood by board members, senior managers and all staff in press, communication and marketing teams.

There is a need to publicise the scheme to attract candidates and also a need to track alumni for evaluation.

There have been meetings with DFID communications and they are aware of and are implementing the guidance.

2.9 Conduct

Principle – The Board and staff of the public body work to the highest personal and professional standards. They promote the values of the public body and of good governance through their conduct and behaviour.

2.9.1 *Does the CSC have robust and effective systems in place to ensure that it is not, and is not perceived to be, engaging in political lobbying?*

This must include restrictions on board members and staff attending Party Conferences in a professional capacity.

Yes. The CSC receives updates from Cabinet Office via the DFID sponsor team on political activities and implements these. The CSC advised that they would welcome clarity from the DFID sponsor team on engagement with opposition MPs.

Recommendation: MP contact – The sponsor team should provide further guidance on contact with opposition MPs.

2.9.2 *Is there in place a Code of Conduct setting out the standards of personal and professional behaviour expected of all board members?*

This should follow the Cabinet Office Code. All members should be aware of the Code. The Code should form part of the terms and conditions of appointment.

Yes, there is a code of conduct in place (the Nolan principles).

2.9.3 *Has the CSC adopted a Code of Conduct for staff?*

This is based on the Cabinet Office model Code. All staff should be aware of the provisions of the Code. The Code should form part of the terms and conditions of employment.

Yes, the CSC relies on the code of conduct of the Association of Commonwealth Universities, which is the employer for staff working for the CSC.

2.9.4 *Are there in place clear rules and procedures in place for managing conflicts of interest? There should be a publicly available Register of Interests for board members and senior staff, which must be regularly updated.*

Yes, it is stated on website that there is a publicly available register of interests and the IAD has confirmed its existence.

2.9.5 *Are there in place clear rules and guidelines in place on political activity for board members and staff?*

There must be effective systems in place to ensure compliance with any restrictions.

Yes, the CSC receives updates from Cabinet office via DFID sponsor team on political activities. The CSC also advised that they would welcome clarity from the DFID sponsor team on engagement with opposition MPs.

2.9.6 *Are there in place rules for board members and senior staff on the acceptance of appointments or employment after resignation or retirement?*

Most of the Commission members are in academia and it therefore would not be appropriate to stop employment in other universities.

3 Appendix 1 – Terms of Reference

1 Consulting review scoping document

1.1 Area subject to review

The Department for International Development (DFID) is obliged to review the status of its Non Departmental Public Bodies (NDPBs) at least once every 3 years – in this instance, DFID's only executive NDPB, the Commonwealth Scholarship Commission (CSC). The review process is split in to two stages. The first stage was carried out by a Civil Servant from the Foreign and Commonwealth Office (FCO) . This review concluded that the Commonwealth Scholarship Commission (CSC) should remain as a NDPB.

1.2 Rationale for review

DFID, specifically the United Nations and Commonwealth Department (UNCD), has requested that the Internal Audit Department (IAD) undertake stage 2 of its NDPB status review.

1.3 Scope of review

This stage 2 review is to be undertaken on behalf of DFID by the IAD on a *consultancy* basis. As such the IAD's client for this review is UNCD within DFID. The IAD will provide data and analysis and will not have an executive role in deciding the outcome or taking other decisions, though it will make suggestions for control and risk mitigation enhancement. Executive decisions will be reserved to DFID, supported by the Cabinet Office.

This review will cover the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance as mandated by the Cabinet Office in their document *Guidance on reviews of non-departmental public bodies* (Cabinet Office – June 2011).

The review will:

- Apply the Cabinet office methodology and consider how in the future the CSC (as a NDPB) should ensure it has appropriate governance arrangements in place to manage systems and risk to within DFID's risk appetite.
- Not be constrained by the Cabinet office guidance, utilising other sources of good governance guidance as appropriate within the principles established by the Cabinet Office. The review may consider what governance options are available to CSC; what risks are associated with each; and what risk mitigation actions the IAD would suggest to reduce these risks.
- Be proportionate – any suggestions made by IAD will take account of the fact that the CSC is a small organisation.
- Consider programme and project control requirements (set by DFID); and the CSC's business needs (in terms of efficiency and effectiveness in the delivery of a world leading scholarship programme).

2 Internal Audit Department methodology and approach

2.1 Methodology

This review will be undertaken through interviews with key personnel involved in the process (es) under review and analysis and review of supporting data, documentation and paperwork supporting DFID's relationship with the CSC as its NDPB.

As stated above, this review will adopt the Cabinet Office methodology using the 'comply or explain' approach to corporate governance in the UK, where DFID and the CSC will need to identify in the review, any areas of non-compliance and explain why an alternative approach has been adopted and how this approach contributes to good corporate governance.

2.2 IAD outputs

The IAD's output from this review will be:

- A consultancy report following guidance from the Cabinet Office, to be shared with the following distribution list:
 - o DFID (UNCD) and its Ministers.
 - o Cabinet Office Ministers.
 - o The review's DFID Director General and Deputy Director sponsors (see D2.4 below).
 - o The review's process owner (see D2.4 below).
 - o The National Audit Office (final only).
 - o The Commonwealth Scholarship Commission (through the Chair).
 - o The Scottish Government.
 - o Department for Business, Innovation and Skills.

A draft of the report will be shared with UNCD and the CSC (through the chair) for a verification of factual accuracy at the same time. After factual accuracy has been confirmed the draft report will be issued to the relevant stakeholders and DFID and the CSC for full review and submission of comments. Following comments from the stakeholders, DFID (UNCD) will submit, manage and deliver the process of ministerial approval and appropriate Parliamentary announcements.

2.3 IAD staff

The IAD staff assigned to this review are:

- Jim Kennedy, Section Head of Geographic and Operational Assurance.

2.4 Departmental key contacts

The key contacts for this review in the Department are:

- Michael Anderson, Director General Policy and Global programmes. (**DG sponsor**).
- Anthony Smith, Director, International Relations (**Director sponsor**).
- Keith Mackiggan, Deputy Director of UNCD (**process owner**).
- John Kirkland, Executive Secretary of the Commonwealth Scholarship Commission.
- Nicola Watt, Commonwealth Programme Manager.
- Morag Alexander, Deputy Programme manager for the Commonwealth.
- Tim Unwin, Chair of the Commonwealth Scholarship Commission.