

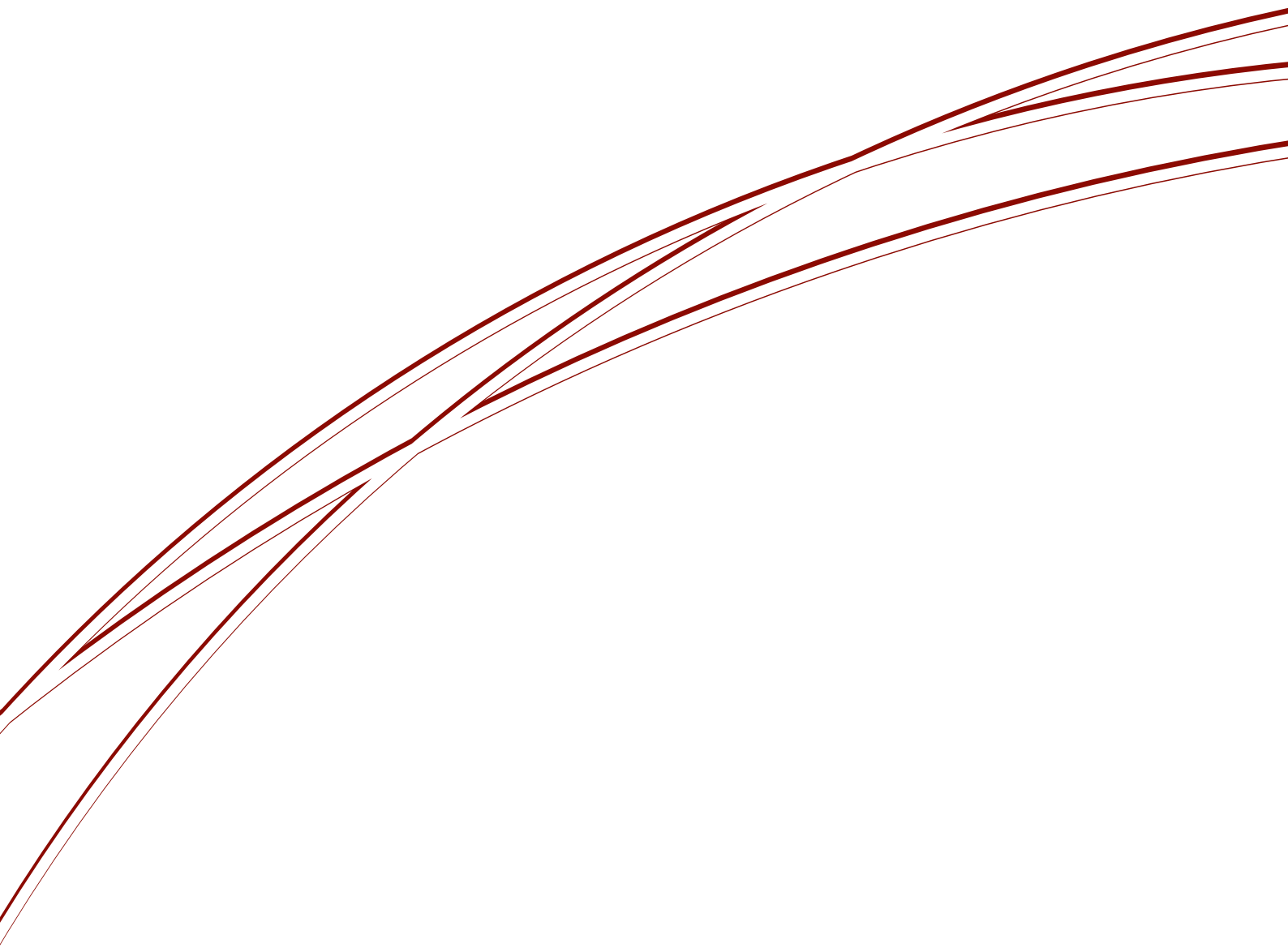
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INDEPENDENT COMMISSION  
AGAINST CORRUPTION  
NEW SOUTH WALES



**LEARNING THE HARD WAY:  
MANAGING CORRUPTION  
RISKS ASSOCIATED  
WITH INTERNATIONAL  
STUDENTS AT  
UNIVERSITIES IN NSW**

**APRIL 2015**



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## Introduction

Between 1988 and 2014, the number of fee-paying international students at universities in NSW increased 13-fold and, today, represents nearly one in five of those studying at universities in this state. With around 17% of university operating revenues coming from international student fees, profits from the international student industry have become central to funding the broader range of activities in the universities of NSW. From modest beginnings in 1986, when Australian universities first entered foreign markets, international student revenue has now become an important part of each university's income stream.

The international student industry in Australia has had to compete increasingly with universities around the world, in particular those in the United States, Canada, Germany and the United Kingdom. The growth in supply of university places globally is outstripping the growth in the number of students with suitable academic capabilities and adequate English-language proficiency.

Competitive forces have pushed the level of English-language proficiency that some universities in NSW demand below what is considered necessary to complete some courses. In the search for international students, some universities in NSW are entering markets where document fraud and cheating on English-language proficiency tests are known to exist. They are using large numbers of local intermediaries – sometimes more than 200 agents<sup>1</sup> – to market to and recruit students, resulting in due diligence and control challenges.

Universities in NSW are now in an unenviable position. They have responded to business challenges by increasing the number of markets they are in and, in turn, created incentives for staff to build on international student numbers and lower English-language proficiency entry requirements.

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<sup>1</sup> Agents are individuals or companies that provide a commercial service helping students gain a place in overseas study programs.

As a consequence, there is a gap – at least in some courses – between the capabilities of many students and academic demands. Students may be struggling to pass, but universities cannot afford to fail them. This creates significant tensions within those universities between generation of revenue and compliance with academic standards.

### Why the Commission produced this paper

It is hardly surprising that problems are emerging. There is pressure for some international students to pass courses that are beyond their academic capabilities, pressure on staff within universities in NSW to find ways to pass students in order to preserve budgets, and pressure created by an increasingly competitive market that makes recruitment targets difficult to meet.

There is a widespread public perception that academic standards are lowered to accommodate a cohort of students who struggle to pass. Controversy around cheating features largely in the media and other sources. False entry qualifications, cheating on English-language proficiency tests, essay mills selling assignments, plagiarism, cheating in university exams and paying others to sit exams are reportedly common.

The pressures within the universities are also conducive to corruption. The gap between student capabilities and academic demands increases the likelihood that students will offer inducements to academics in order to pass courses and, conversely, makes students vulnerable to improper demands from academics. With universities in NSW financially dependent on the success of international students, academics may be encouraged to admit students they would otherwise reject, to turn a blind eye to cheating, and to mark the work of poor-performing students favourably to allow them to pass. A number of



inquiries have exposed these corrupt activities, as discussed in chapter 1 of this report.

A principal function of the NSW Independent Commission Against Corruption (“the Commission”) is to secure the revision of work methods or procedures that may be conducive to corrupt conduct. Specifically, s 13(1)(f) of the *Independent Commission Against Corruption Act 1988* states that a principal function of the Commission is “to advise public authorities or public officials of changes in practices or procedures compatible with the effective exercise of their functions which the Commission thinks necessary to reduce the likelihood of the occurrence of corrupt conduct”.

In this paper, the Commission considers what actions universities in NSW can take in order to manage the corruption risks created by their international student businesses.

## Research and consultation

In developing this paper, the Commission met with representatives from all publicly-funded universities in NSW, as well as two interstate universities, to gain insight into the methods that they have developed to minimise the opportunities for corruption related to their international students. More than 40 academics and administrators with significant experience with international students were interviewed (including those involved in teaching and administering courses with high numbers of international students). The Commission also interviewed university risk and audit staff, senior staff from international student offices, and pro vice-chancellors (PVCs) with responsibility for international students.

The Commission also spoke with representatives from the Australian Government Department of Immigration and Border Protection (DIBP) and the NSW Department

of Education and Communities<sup>2</sup> concerning migration risks associated with international students in Australia’s universities and with representatives from the Australian Government Department of Education and Training about universities’ reliance on revenue from international students.

The Commission examined relevant Australian legislation and academic literature on universities’ management of international students. This literature included academic publications, media articles, Australian and foreign government publications and papers produced by the universities themselves.

## Key corruption prevention initiatives

The first aim of this paper is to examine the broader factors at play that are contributing to the challenges currently being faced by universities in NSW. These factors include:

- the competitive nature of the international student industry
- the capabilities of the universities to engage in such a business
- market strategies adopted by universities
- management of intermediaries
- internal intertwining of business development and compliance functions.

The second aim of the paper is to share the changes that various universities have adopted that go some way to

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<sup>2</sup> The Department of Education and Communities was preceded by the Department of Education and Training. To ensure consistency, the Department is referred to in this paper as the Department of Education and Communities.

ameliorating the situation. These include strategies for reducing credential fraud and raising English-language literacy scores and managing the tension between the compliance and business development functions within universities.

Chapter 1 sets out the highly competitive nature of the international tertiary education industry and how that environment has driven universities in NSW to accept students with lower academic capabilities in order to meet revenue needs. Some students consequently struggle to pass because of the gap that has developed between student capabilities and university academic demands. This has become conducive to corruption, and can lead to cheating, inducements to academics, academic exploitation of struggling students, and internal pressures to turn a blind eye to academic misconduct or to allow students to pass who would otherwise fail.

Chapter 2 examines the challenges for universities in NSW in developing effective market strategies. The internal operational arrangements of those universities – as loosely coupled organisations – have translated into a somewhat ad hoc approach to market choice. Individual academics have tied universities in NSW to markets based on personal contacts and interests. Even after international student offices were established, market strategies continued to focus on revenue with cost and risk peripheral considerations. The result was often that the universities were operating in a large number of often corrupt markets, seeking revenue without consideration of the cost of managing students with low capabilities. The risks associated with document fraud and false English-language proficiency test results are often seen as something that can be resolved during admission screening.

The Commission found that some universities had benefitted from including explicit cost and risk considerations in market decisions by:

- restricting the ability of academics to enter into agreements on behalf of the university
- understanding the full-cost profile of international students, particularly the ongoing and significant cost of managing the gap between student capability and academic demands
- assessing risk in markets and using this assessment to develop organisational responses tailored to the specific market risks
- leveraging university strengths, where possible, to develop niche international operations capable of attracting higher-capability students.

Chapter 3 addresses the challenges of operating in numerous markets through large numbers of intermediaries. Rather than concentrating on dominance in a small number of markets, universities in NSW frequently spread themselves across many markets. The distribution costs and development of capabilities in so many different markets mean intermediaries are the only feasible option. In some cases, local intermediaries have significant market power, with the option to divert students to other universities if there are onerous demands placed on them by any one university.

Universities in NSW are, therefore, limited in their ability to enforce contracts, demand audit access or demand tighter checking of students. At the other extreme, some universities have hundreds of small education agents spread across many markets, making the logistics of oversight difficult.

The risk of students with false credentials being put forward by the agents is high, with all universities in NSW experiencing misconduct by some of their agents. Some universities in NSW have taken steps to improve the situation by:

- altering incentive structures applied to agents to better encourage the provision of quality students
- reducing the number of overseas agents
- increasing due diligence on and monitoring of agents, particularly focusing on the use of fine-grained data analysis of student issues
- forming closer relationships with trusted agents
- developing partnerships with overseas institutions as an alternative to agents.

Chapter 4 deals with the internal tension between a university's academic standards compliance function and its business development function.

Good business practices dictate that, where business development activities are likely to cause direct violation of the rules and goals of an organisation, the compliance function is separated from the business development function. Further, where the business development function is heavily incentivised, the compliance function is commensurately strengthened.

This has generally not been the case in universities in NSW. Compliance and business development have been intertwined with targets and incentives tied to the development role without matching improvements in the compliance role. The effect is to encourage the admission of less academically capable students, to turn a blind eye to their academic misconduct, and to find ways to pass these



students. While few universities in NSW have addressed the broader issue of separation of compliance and business development, some actions that have been taken include:

- integrating the international student office's information technology (IT) systems with the university's systems to ensure that the international student office can be held accountable for the quality of students entering the university
- matching the strength of the university's academic standards compliance system with business development risks (for example, appointing an independent representative from another university to sit on academic standard committees or auditing of course standards by well-regarded Australian and overseas academics)
- separating the compliance function from the business development function, as feasible (for example, moving admission out of international student offices that are responsible for marketing and recruitment, and limiting the impact of international student numbers on faculty budgets).

# Chapter 1: Shifting focus from domestic to international student revenue

Up until 1986, universities could be assured that their students were who they said they were and had the capabilities they claimed. Equilibrium developed between the capabilities of the domestic students being admitted and the demands the universities placed on the students.

With student capabilities matching academic demands, only a small number of students would be expected to fail each year. While cheating and plagiarism occurred, the gap between student capability and academic demands minimised the pressure on students to cheat. Students were expected to do well because their skills and capabilities matched the demands of the university course. Where cheating did occur, professional standards of academics and informal peer relationships between academics and professional staff, alongside formal reporting structures and policies, formed a net that captured much of the wrongdoing. With no systemic pressure to turn a blind eye to failures or academic misconduct, such a diffuse system of compliance was long considered effective.

This changed as universities started to sell higher education to foreign markets. That year, the Australian Government ended the practice of government funds being used to subsidise university places for international students and allowed universities to charge international students the full cost of their degrees.<sup>3</sup> Acting to augment their incomes by recruiting additional international students, from 1988 to 2014, universities in Australia experienced a 13-fold increase in the number of international students enrolled.<sup>4</sup>

3 Jackson, *Higher Education Funding Policy*, July 2003, accessed at [www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/Publications\\_Archive/archive/hefunding](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/hefunding).

4 This figure was calculated using spreadsheets from the NSW Department of Education and Communities. The 1988 figures were sourced from Department of Education, Training, and Youth Affairs. *Higher education students time series tables: selected higher education statistics*, 2001, accessed at [https://docs.education.gov.au/system/files/doc/other/time\\_series\\_data\\_1949\\_-\\_2000.pdf](https://docs.education.gov.au/system/files/doc/other/time_series_data_1949_-_2000.pdf). The 2013 figures were sourced from Department of Education and Communities, *Research snapshot, onshore higher education international students as*

International students now comprise 18% of the student population at universities in NSW; at some institutions, this figure exceeds 25%.<sup>5</sup> In 2013, international student fees made up, on average, 17% of the total operating revenues of universities in NSW.<sup>6</sup>

But this revenue has brought with it a host of new pressures. Universities can no longer be as certain about the capabilities claimed by the students entering their courses. English tests that form part of the entry requirement are frequently falsified, either by cheating, having someone else take the exam or changing the results (as outlined later in this report). Further, evidence of qualifications is sometimes forged and, in some cases, the wrongdoing is being facilitated by the universities' own recruitment agencies.

Universities in Australia have begun to find themselves in a situation where the quality of the students – particularly in terms of English-language proficiency – that they are able to recruit in highly competitive foreign markets is often below what is needed either to pass the courses that are being sold or necessary to be able to practise in the field after graduation.

In its 2011 report, *Investigation into how universities deal with international students*, the Victorian Ombudsman noted:

*...I consider that the universities need to shift their focus from recruiting students and boosting their*

*a proportion of all onshore students, by university, 2013*, August 2014, accessed at <https://internationaleducation.gov.au/research/Research-Snapshots/Documents/International%20students%20in%20Australian%20unis%202013.pdf>. Note that there are two historical differences between the spreadsheets. In 1988, nurses were trained in technical colleges and not universities. In 1988, New Zealand students were considered international students, this subsequently changed as a trade agreement was reached whereby these students could apply as domestic students.

5 Ibid source 2013.

6 Department of Education and Communities, *Finance 2013 – Financial reports of higher education providers*, November 2014, accessed at [www.education.gov.au/finance-publication](http://www.education.gov.au/finance-publication).

*revenue to ensuring their international students have the necessary skills to study successfully ... universities have been reluctant to face problems with their English language admission standards for fear of reducing international student numbers and revenue...<sup>7</sup>*

Universities generally have become less able to demand appropriate minimum levels of English proficiency as the global supply of university places outstrips demand. Effectively, universities have become price takers<sup>8</sup> in terms of their entry requirements.

In short, the result is that universities in NSW have come to depend financially on a cohort of students, many of whom are struggling to pass, but who the university cannot afford to fail. Standards can be compromised to accommodate the lower levels of student abilities, but reputational cost and internal resistance creates a floor under academic standards. A significant gap remains between the capabilities of some international students and the academic standards demanded by universities. The equilibrium between student capability, financial security of the university, course rigour and reputational standing has been disrupted.

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7 Victorian Ombudsman, *Investigation into how universities deal with international students*, October 2011, p. 8 and p. 29, accessed at [www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184](http://www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184).

8 In the market, there are “price setters” and “price takers”. When there is a limited supply of a product, such as education, then each institution is a price setter, as they can set the price for their product. However, if there are multiple institutions that supply the same product, these institutions are price takers, as they have to accept the going prices and do not have the freedom to set their own prices. If the institution sets its own price when it is a price taker, given the competition, and the fact that the product could be obtained for less at another institution, these prices are unlikely to be accepted by the students (that is, the market) and so prices are constrained.

## Student capability and academic standards gap

Of all the reasons cited to the Commission, low English-language proficiency was the most common basis given for international students engaging in academic misconduct. Students with low English-language proficiency are likely to find it more difficult to understand coursework and will take longer to complete their coursework. International students may engage in academic misconduct because they cannot afford to retake a subject or because their visa may be revoked if they repeatedly fail subjects. The threat of failure and social pressures can also drive some students to engage in academic misconduct; in some cultures, failing a subject may bring dishonour to a student’s family.

Some international students do not understand the concept of academic misconduct or have different cultural perceptions of cheating. In one case in China, exam invigilators were sent to monitor university entrance exams after a suspiciously large proportion of students from a particular city gained entry into prestigious universities. According to a media report, this action resulted in a protest of over 2,000 people.<sup>9</sup> Different cultures have different learning styles; in some cultures, rote learning and not referencing sources is common practice.

English-language tests – especially proficiency scores of the International English Language Testing System (IELTS) – are a key requirement for international students to obtain entry into universities in NSW. Cheating in English tests is a worldwide problem. In England, for example, it is reported that an estimated 48,000 immigrants falsely obtained English-language test scores to acquire student

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9 M Moore, “Chinese students and families fight for the right to cheat their exams,” *Sydney Morning Herald*, 22 June 2013, accessed at [www.smh.com.au/world/chinese-students-and-families-fight-for-the-right-to-cheat-their-exams-20130621-2o06o.html](http://www.smh.com.au/world/chinese-students-and-families-fight-for-the-right-to-cheat-their-exams-20130621-2o06o.html).

visas.<sup>10</sup> Corruption was found in some English-language testing centres, where exam invigilators read out answers to multiple-choice tests and employed test sitters to complete English tests, while the genuine applicants watched.

Similarly, in Australia, an employee at an IELTS testing centre solicited bribes in exchange for increasing IELTS scores.<sup>11</sup> While the IELTS website can be used to verify the authenticity of test results, this control does not protect against students who cheat on English tests, pay others to sit the test for them or manipulate university records.

While cheating on English tests may result in some students gaining admission to courses for which they would otherwise have been denied entry, many students enter with legitimate IELTS scores that are below what is deemed a requirement to succeed. According to IELTS guidelines, linguistically demanding academic courses require a band score of between 7.5 and 9.<sup>12</sup> However, universities in NSW (like many universities globally) generally require an average IELTS band score of only 6.5 to gain entry into undergraduate and postgraduate courses. Higher cut-offs are set for nursing, teaching and medicine. According to the information on its website, one university offers a bachelor of laws – a linguistically demanding course – to students with an IELTS score of 6.

An associate dean at a leading university in NSW recounted to the Commission how attempts to increase entry standards by increasing IELTS requisites and academic qualifications resulted in numbers dropping substantially in the face of stiff competition from the UK. For universities in NSW, their revenue targets generally could not be met with IELTS scores required for entry set at a higher level.

The English standards set by universities in NSW can be lower than the standards recommended by professional associations. For example, the Pharmacy Board of Australia requires that graduates have an IELTS score of 7.5 to practise professionally.<sup>13</sup> Students can practise professionally by completing a bachelor of pharmacy and supervised practice. For a bachelor of pharmacy degree, most universities require an IELTS score of 7, with at least one university offering the program with a score of 6.5.

10 BBC, "Scale of student visa fraud condemned as 'truly shocking'," 24 June 2014, accessed at [www.bbc.com/news/uk-politics-27993775](http://www.bbc.com/news/uk-politics-27993775).

11 Corruption and Crime Commission (CCC), *Report on the investigation of alleged public sector misconduct by any public officer in relation to the conduct of the international English language testing system by Curtin University of Technology or any other public authority*, September 2012.

12 IELTS, *Guide for educational institutions, governments, professional bodies and commercial organisations*, p. 13, accessed at [www.ielts.org/pdf/guide\\_edu-%20inst\\_gov\\_2013.pdf](http://www.ielts.org/pdf/guide_edu-%20inst_gov_2013.pdf).

13 Pharmacy Board of Australia, pharmacy English language skills registration standard, date of effect 1 July 2010, accessed at [www.pharmacyboard.gov.au/Registration-Standards.aspx](http://www.pharmacyboard.gov.au/Registration-Standards.aspx).

Consequently, there are instances where students have completed their studies but have failed to meet the IELTS standard required to be registered in their professional association, preventing them from practising with their qualifications in Australia.

Many academics who spoke to the Commission expressed concern about the level of English-language proficiency amongst international students and their ability to complete coursework. The Victorian Ombudsman has also highlighted the need for a review of English-language proficiency standards.<sup>14</sup> According to a 2007 article, of 12,116 international students who obtained permanent residency in Australia in 2005–06 after graduating, 34% did not have competent levels of English despite entering and graduating from university under the requisite guidelines.<sup>15</sup>

## Academic misconduct and the capability gap

For students entering universities with low levels of English, false entry qualifications or financial pressures to work rather than study, cheating in some form or another will often be seen as an easy solution for passing the course. The sheer volume of cheating has spawned an industry of essay mills and cheating support that targets international students. Even students who do not specifically seek out assignment-completion services are targeted through advertising on social media and can be directly approached by providers of these services. Some of the more brazen members of the cheating industry post advertisements on university noticeboards in the language of the target market. In response, staff at some universities in NSW who are fluent in these languages regularly read physical and online noticeboards and take down advertisements for these cheating services.

International students attending universities in Australia often employ ghost writers to write their assessments and essays and sit online tests and exams for them. Ghost writing is a widespread problem with highly organised networks of ghost writers. The MyMaster ghost writing service – specifically targeted at Chinese students – impacted a wide range of universities including

14 Victorian Ombudsman, *Investigation into how universities deal with international students*, October 2011, accessed at [www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184](http://www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184).

15 B Birrell, "Implications of low English standards among overseas students at Australian universities," *People and Place*, vol. 14, no. 6, 2006, pp. 53–63. Note: these students received a below-band 6 IELTS score.

the Group of Eight (Go8)<sup>16</sup> universities.<sup>17</sup> According to one media report, an analysis of 700 receipts of deposits into the MyMaster bank account revealed that students paid more than \$160,000 to MyMaster in exchange for over 900 assignments.<sup>18</sup>

The Commission spoke with an official at one leading university in NSW who recounted a case where over 200 students were caught plagiarising an assignment. A spreadsheet was advertised on social media that could be used to complete the assignment. Students paid for the spreadsheet or distributed it to other students. The plagiarism was evident as a large proportion of students received identical marks and made the same errors. These students received a zero mark for the assignment and some faced serious disciplinary action.

In an exam context, cheating methods can be fairly sophisticated. Cheating can include (among other things) copying exam answers, bringing notes or recording devices into the exam or employing another person to sit the exam. Cheating rings use codes to share exam answers or memorise specific exam questions to sell to other students. Cheating can also involve offering bribes to exam invigilators, academics or administrative staff to increase grades.

One senior administrator reported cases of exams being stolen; in one case, an academic's computer was hacked and in another exam papers were removed from an academic's office. Another academic reported numerous instances of finding students with confidential exam papers on memory sticks and rumours of students circulating exam papers for profit. One senior administrator reported that an international student used a camera in their glasses and a listening device to obtain external help to complete an exam. The exam invigilators were well trained and detected this incident.

The cheating industry can also provide impostors to sit exams for a struggling student. To deal with this, exam invigilators scan student identity (ID) barcodes and examine photo IDs. However, these forms of identification are not reliable. An academic reported to the Commission that the cheating industry manufactures fake university IDs to facilitate impostors sitting exams. The problem is so serious that one university is considering using biometric data to confirm the identity of its students.

Cheating is harder to control in online courses and

assessments where the identity of the student is more difficult to verify. Universities are using a variety of methods to combat this. One approach is to analyse keyboard strokes to determine whether the speed of responding is consistent with the pattern previously demonstrated by the student. Other techniques include releasing assignments for a short period of time to minimise collusion and using webcams to monitor students. Webcams with 360-degree capability can be used to record visual and audio feedback and flag any suspicious activity for academics to review. This can be combined with fingerprint scans to confirm the identity of students. Computers can also be locked down, so that students are not able to access the internet or their computer files during the test.

## Capability gap is conducive to corruption

The gap between the capabilities of some international students and academic course demands places those students in a desperate position and leaves them with few options. Some will cheat on assignments and exams. For others, the desperation of not being able to pass their courses makes them vulnerable to exploitation by academics and administrators, and also makes the student more likely to offer inducements. Conversely, the financial dependence on international student numbers and student success creates pressures on university staff to accept cheating and plagiarism and to re-mark assessments to pass students who otherwise would fail.

In the aforementioned 2011 report, the Victorian Ombudsman identified “tensions at some universities between academic standards and the need to maintain revenue and market share”.<sup>19</sup> It also highlighted instances of plagiarism by international students, changing of marks by academic and administrative staff, changing of assessment tasks to make them easier for international students to pass, and instances of bribes being offered by international students to academic staff.

In Operation Tudor (2002), the Commission found that, in exchange for money, favours and hospitality, a student officer working at a university in NSW changed student marks from failed to cancelled so that students could re-sit the subject without incurring course fees.<sup>20</sup>

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<sup>16</sup> Go8 universities are a coalition of leading Australian universities. Some of the data that is collected to rank universities includes research outputs, graduate outcomes and academic staff metrics.

<sup>17</sup> L Visentin and A McNeilage, “Universities in damage control after widespread cheating revealed,” *Sydney Morning Herald*, 12 November 2014, accessed at [www.smh.com.au/national/education/universities-in-damage-control-after-widespread-cheating-revealed-20141112-11kzj0.html](http://www.smh.com.au/national/education/universities-in-damage-control-after-widespread-cheating-revealed-20141112-11kzj0.html).

<sup>18</sup> Ibid.

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<sup>19</sup> Victorian Ombudsman, *Investigation into how universities deal with international students*, October 2011, p. 6, accessed at [www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184](http://www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184).

<sup>20</sup> NSW Independent Commission Against Corruption (ICAC), *Investigation into the conduct of officers and students at University of Technology*, August 2002.



In Operation Orion (2005), the Commission investigated the corrupt handling of plagiarism at an offshore campus.<sup>21</sup> An academic discovered and reported the plagiarism to the head of school at the graduate school of business. The head of school did not apply the plagiarism policy and, instead, engaged a lecturer to re-mark the papers who did not thoroughly investigate the papers for plagiarism. When this failed to yield a proper investigation into the plagiarism incident, the academic escalated his concerns to the vice-chancellor (VC). Senior university staff, however, also failed to thoroughly investigate the matter. At the time, the university was attempting to increase its revenue by increasing its number of international students. The motivation for violating the plagiarism policy was to avoid damage to the reputation of the offshore campus. In the end, the university's reputation was tarnished and the offshore program terminated.

Since 2009, the Corruption and Crime Commission (CCC) has conducted four inquiries into matters related to international students at Curtin University in Western Australia. Staff members at Curtin University's English-language testing centre were found to have altered student marks in exchange for money,<sup>22</sup> and an academic was found to have pressured female international students for sexual favours in exchange for higher marks.<sup>23</sup> In another case investigated by the CCC, a lecturer increased marks in return for bribes<sup>24</sup> and another lecturer defrauded international students of between \$500 and \$70,000 to pay for his living expenses.<sup>25</sup>

In 2013, Transparency International published a report into corruption in the global education market. It noted that growing demand for higher education worldwide and the huge value of the market made the higher education industry vulnerable to corruption. It also noted that "institutions without effective oversight and control are most prone to corruption".<sup>26</sup>

21 ICAC, *Report on investigation into the University of Newcastle's handling of plagiarism allegations*, June 2005.

22 CCC, *Report on the investigation of alleged public sector misconduct by any public officer in relation to the conduct of the international English language testing system by Curtin University of Technology or any other public authority*, September 2012.

23 CCC, *Report on the investigation of alleged public sector misconduct by Dr Nasrul Ameer Ali as a sessional academic employed by Curtin University of Technology*, September 2010, accessed at [www.parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/3812425a89afb0f0788ec4da482577970028e5a4/\\$file/tp2425.pdf](http://www.parliament.wa.gov.au/publications/tables/papers.nsf/displaypaper/3812425a89afb0f0788ec4da482577970028e5a4/$file/tp2425.pdf).

24 CCC, 2013 media statement, "Former university lecturer sentenced over exam mark bribes", accessed at <https://www.ccc.wa.gov.au/Publications/MediaReleases/Media%20Releases%202013/Former%20university%20lecturer%20sentenced%20over%20exam%20mark%20bribes.pdf>

25 CCC, 2009 media statement, "Five-year sentence for lecturer who defrauded students," accessed at <http://www.ccc.wa.gov.au/Publications/MediaReleases/Pages/MediaRelease20Feb2009.aspx>.

26 Transparency International, *Global corruption report: education*, Routledge, New York, October 2013, p. xix.

A number of newspaper articles have recently highlighted serious concerns about misconduct in the higher education sector, including widespread fraud in English-language testing,<sup>27</sup> systemic cheating by international students in university exams and assignments,<sup>28</sup> and how financial pressure on universities increases the risk of corruption.<sup>29</sup>

## Actions to reduce the capability gap

Universities in NSW find themselves facing what is referred to as a "wicked problem".<sup>30</sup> There is no way around the fact that some of the international students the universities can attract will struggle to meet university standards; or that the universities are reliant on their revenue but limited in how far they can lower standards. There is no simple solution that will effectively eliminate the gap between the capabilities of the students and the academic demands of the universities, and no easy way to eliminate the corruption pressures created by the gap.

According to information provided to the Commission, universities in NSW are fully aware that the international student industry is fraught. For almost 30 years, they have experienced problems such as fake qualifications, questionable agent behaviour, visa-driven enrolments, nepotism in offshore campuses, loss of intellectual property to partners,<sup>31</sup> unwitting involvement in offshore bribery, cheating and plagiarism, academics exploiting students and students offering inducements to staff. These problems have been costly and, when made public, embarrassing.

While the central tension between student capability and academic demands cannot be completely resolved, there

27 BBC, "Scale of student visa fraud condemned as 'truly shocking'", 24 June 2014, accessed at [www.bbc.com/news/uk-politics-27993775](http://www.bbc.com/news/uk-politics-27993775).

28 A McNeillage and L Visentin, "Students enlist MyMaster website to write essays, assignments," *Sydney Morning Herald*, 12 November 2014, accessed at [www.smh.com.au/national/education/students-enlist-mymaster-website-to-write-essays-assignments-20141111-11k0xg.html](http://www.smh.com.au/national/education/students-enlist-mymaster-website-to-write-essays-assignments-20141111-11k0xg.html).

29 E Cervini, "Corruption in universities may rise," *The Age*, 13 October 2014, accessed at [www.theage.com.au/national/education/corruption-in-universities-may-rise-20141012-10qxuh.html](http://www.theage.com.au/national/education/corruption-in-universities-may-rise-20141012-10qxuh.html).

30 According to Rittel and Webber, wicked problems are problems that are difficult to formulate. There is no clear right or wrong solution or point to indicate that a solution has been reached. Wicked problems are unique, as there is no precedent to use to solve the problem. Evaluating the effectiveness of solutions for wicked problems is difficult, as there are often unexpected consequences that occur when solutions are implemented. Further information on the features of wicked problems can be found at: HWJ Rittel and MM Webber, "Dilemmas in a general theory of planning", *Policy Sciences*, vol. 4, Elsevier Scientific Publishing Company inc., Amsterdam, 1973, pp. 155–169.

31 Partners are educational institutions, either local or overseas, with which universities engage to offer courses to international students. Partners typically teach courses on the university's behalf or teach part of a course before students go to the overseas universities to complete the course.



are actions that can be taken to reduce the gap and the pressures created by it. For example, since universities in Australia began recruiting full-fee paying international students, some have been:

- learning from the risks created and have dealt with them by reducing the number of agents to more manageable levels
- shifting to partnerships where there are mutual interests
- increasing due diligence of intermediaries
- changing agent incentives to align motivations with university interests
- changing internal business incentive arrangements to separate compliance and revenue generation
- centralising the recruitment activities of the universities to improve the way this function is overseen.

## Purpose of the paper

From one perspective, the outlook is positive. Improvements are continual, albeit in a reactive way, as universities in NSW act to counter problems when they become apparent. But the progress also appears to highlight a litany of mistakes that should have been obvious when the universities in NSW began more rapidly expanding their international student intakes in the late 1990s. Some universities in NSW use up to 300 agents and this was never going to be manageable. Document fraud and cheating in corrupt markets was well known before universities started recruitment. The difficulties faced by students with inadequate English-language skills must have been clear. Committing a large university to exporting into markets that were poorly understood – simply because one academic knew someone or had relationships with a local institution, for example – is not a sound basis for an export strategy.

Universities in Australia were not well prepared to enter the international student market. Their long tradition as a loosely coupled association of academics supported by a bureaucracy that administered internal processes was not an ideal launching pad for an international business. Their set of organisational capabilities and controls was not suited to running a professional-services business that operated in a highly competitive global market, through intermediaries and partners, and in countries where corruption is more prevalent than in Australia.<sup>32</sup>

Few of the indispensable capabilities around market analysis, internal operational control and compliance arrangements that would be found in an effective international enterprise

were present in Australian universities when they entered the international student market. These universities found themselves recruiting and teaching in markets that are culturally alien and often corrupt. The universities had limited capability to manage agents and partners, and their internal compliance controls were not suited to the pressures created by this new business.

This paper is concerned with the conditions conducive to corruption that flow from the entry of international students with capabilities that fall short of academic standards. The Commission is cognisant that this is a problem with no simple solution. There are, however, a number of changes that universities have adopted that can ameliorate the situation. Initiatives aimed at reducing credential fraud and raising IELTS scores can decrease, if not eliminate, the gap between student capabilities and academic standards. Careful separation of compliance and business development incentives within universities can tighten admission processes and reduce the pressure on academics to turn a blind eye to misconduct or to re-mark assessments.

<sup>32</sup> Transparency International, 2014 Corruption Perceptions Index, accessed at <http://www.transparency.org/cpi2014>.

## Chapter 2: Strengthening international market strategies

### Dangers of revenue hunting in risky, international student markets

Income from international students is lucrative but the markets are fiercely competitive. The demand for an international education has continued to grow,<sup>33</sup> and universities are keenly seeking to increase their market share of international students. Australia has the fifth-largest share of the international student market (5.5%) after the US (16.4%), UK (12.6%), Germany (6.3%) and France (6%).<sup>34</sup> Canada is in a similar position to Australia, with a 4.9% share.<sup>35</sup>

While Australia's universities rank well in global comparisons, most are not among the world's highest-tier institutions, and they operate in a highly competitive, largely undifferentiated, commoditised mid-range segment of international education providers. Universities in NSW have increasingly found themselves in the unenviable position of selling educational services that are much like those of many competitors around the globe. In an industry with chronic oversupply of education providers, and with products that are difficult to differentiate, universities are forced to be price takers not only in terms of the fees they can charge but also in terms of the capabilities and English-language requirements of international students.

As price takers seeking volume for an undifferentiated product, the search is always on to reach new markets. Some universities may feel that they have little choice but to enter corrupt markets where student document

fraud and financial fraud is likely to lead to an influx of international students who may struggle to complete their degrees. When it involves sufficient numbers, the tension created by the student capability gap and the need to meet revenue targets becomes more conducive to corruption. Academics come under pressure to turn a blind eye to problems caused by poor academic capabilities and actively play a part in allowing students to pass who should fail. Not only are students more likely to cheat, but they are more likely to offer inducements to academics to pass courses or be exploited by university staff.<sup>36</sup> Courses with high fail rates may discourage other international students from applying.

As highlighted in the 2011 report by the Victorian Ombudsman, universities have:

*...had to commercialise their operations – competing to recruit and retain students ... The amount of money at stake, both for the universities and the students, increases the risk of improper conduct in the interests of short term gain.*<sup>37</sup>

33 Organisation for Economic Co-operation and Development (OECD), *Education at a glance 2014: OECD indicators*, OECD Publishing, accessed at [www.dx.doi.org/10.1787/eag-2014-en](http://www.dx.doi.org/10.1787/eag-2014-en).

34 Ibid.

35 Ibid.

36 CCC, 2013 media statement, "Former university lecturer sentenced over exam mark bribes," accessed at [www.ccc.wa.gov.au/Publications/MediaReleases/Media%20Releases%202013/Former%20university%20lecturer%20sentenced%20over%20exam%20mark%20bribes.pdf](http://www.ccc.wa.gov.au/Publications/MediaReleases/Media%20Releases%202013/Former%20university%20lecturer%20sentenced%20over%20exam%20mark%20bribes.pdf).

37 Victorian Ombudsman, *Investigation into how universities deal with international students*, October 2011, p. 40, accessed at [www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6cel9d184](http://www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6cel9d184).

## Competition for international students is on the increase

Given the intense competition, international students are unlikely to apply to universities that have lengthy documentation, verification and assessment processes. To remain competitive and avoid losing market share, a number of governments have simplified visa processing.<sup>38</sup> In 2011, the UK government completed a five-year program aimed at attracting an additional 70,000 non-EU international students to their universities (and doubling the number of markets entered), which coincided with streamlined visa processing.<sup>39</sup> In 2014, Canada enacted legislation to make it easier for international students to obtain study visas and work rights in a bid to increase international student numbers.<sup>40</sup> In a bid to boost its numbers, in late 2013, New Zealand – an emerging player in the international student market – also streamlined visa processing and improved its work rights for international students.<sup>41</sup> This has meant that established players, such as the US and Germany, lost market share in recent years (by 7% and 3%, respectively, between 2000 and 2012<sup>42</sup>).

Over time, Australian governments have pursued regulatory reform in order to increase the competitiveness of their

international education sector. To be able to achieve the objectives of these reforms, Australia has streamlined visa processing and strengthened consumer protection for international students.<sup>43</sup>

At the same time, governments in China and India have sought to improve their universities in order to retain their own students, potentially decreasing the supply of students to foreign markets.<sup>44</sup> Online delivery of education has also revolutionised how education is delivered, allowing students to obtain a quality degree without leaving their family, friends and employment; thereby, further decreasing the pool of international students available to study overseas.

## A weak market strategy

In 1986, universities in Australia had little experience in recruiting, marketing and packaging education, screening international student applicants, competing directly with other universities, and understanding the associated costs. Despite this, some universities entered the race into risky markets, chasing additional revenue, without developing clear market entry strategies that considered the full cost and risk of sourcing and educating students from those markets. Such costs and risks include the importance of developing localised knowledge, the risk of corruption, and the full costs and risks associated with processing and educating prospective international students from target countries.

Unlike other international enterprises, NSW universities often entered into markets without sufficient strategic analysis; too often it was based on an academic who saw an opening, had studied in a country or had developed

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38 The UK, New Zealand, Canada, and Australia have all recently passed legislation to this effect.

39 Prime Minister's Initiative 2 (PMI2), accessed at [http://webarchive.nationalarchives.gov.uk/20100222165247/http://www.dius.gov.uk/dius\\_international/education/prime\\_ministers\\_initiative](http://webarchive.nationalarchives.gov.uk/20100222165247/http://www.dius.gov.uk/dius_international/education/prime_ministers_initiative).

40 Government of Canada, Notice – New regulations for international students finalized, 12 February 2014, accessed at [www.cic.gc.ca/english/department/media/notices/2014-02-12.asp](http://www.cic.gc.ca/english/department/media/notices/2014-02-12.asp).

41 Immigration New Zealand, *Changes to make New Zealand more attractive to international students – Update*, 25 October 2013, accessed at [www.immigration.govt.nz/migrant/general/generalinformation/news/internationalstudentchanges.htm](http://www.immigration.govt.nz/migrant/general/generalinformation/news/internationalstudentchanges.htm).

42 OECD, *Education at a glance 2014: OECD indicators*, OECD Publishing, accessed at [www.dx.doi.org/10.1787/eag-2014-en](http://www.dx.doi.org/10.1787/eag-2014-en).

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43 Successive governments completed two comprehensive reviews of the sector: the Baird Review, released in March 2010, and the Knight Review, released in June 2011.

44 J Mervis, "Data check: Why do Chinese and Indian students come to US universities?," *Science Insider*, 18 November 2014, accessed at [www.sciencemag.org/](http://www.sciencemag.org/).

contacts related to their research. Some of the agreements with agents were reached on behalf of the universities by academics, department heads and deans who were travelling to the area.

A PVC (external relations) from one of the universities told the Commission, for example, about an instance in the late 1990s where a 17-year contract with a Chinese institution had been entered into without conducting sufficient due diligence. The institution provided no students and, as the contract was exclusive, the university was shut out from the market for the duration of the contract. For many universities, therefore, the choice of international markets was effectively made in the early years by academics promoting places of interest to themselves or where they had had previous experience, which, ultimately, resulted in entry into poor markets.

Faced with a growing number of problems in the international student market, such as students with lower capabilities entering institutions with false documents and instances of academic misconduct, universities in Australia have taken a number of actions to try to gain better control of their activities. These actions have included restricting the freedom of academics to enter into agreements on behalf of their universities and establishing international student offices to better coordinate efforts and screen students.

International student offices were established in universities to manage international market engagement, recruitment and international student admissions. Part of their purpose was to avoid the sort of poorly designed contracts that had been entered into by academics abroad as the international student business started to develop.

While it improved the situation somewhat, the establishment of these offices has not, in many cases, challenged the autonomy of faculties and schools. They are still able to hire their own personnel to develop international relationships separately from university-wide efforts and opportunities chased by other units. Students with lower capabilities are still recruited, regardless of their full costs or the corruption risks in the source markets.

## The problem of focusing on revenue without considering costs

Students from different markets and with different levels of academic capability generate different levels of profit – total revenue minus total costs. While the costs of recruitment and vetting are recognised by most universities, few take into account the cost of managing the gap between student capability and academic demands, such as personnel cost and the cost of remedial actions and courses. Without measuring

such costs, recruitment decisions simply aim to maximise revenue.

Two interviewees, one a director of admission and the other a director of student administration, expressed a view to the Commission that, to a great extent, the additional revenue gained from putting another student into a lecture theatre is considered almost pure profit, as the universities are primarily fixed-cost operations. As one academic said of international student revenue, “it is all gravy”.

The effect of the fixed-cost mentality is to equate revenue and profit. The more students, the more revenue, the more profit. This means that students with lower capabilities are as profitable as good ones. Thinking in these terms can become a driver for accepting students who will struggle to pass.

For many universities in Australia, the fee-paying international student business began with business schools searching out additional revenue. MBAs were high-value degrees that the partially self-funded business schools were able to sell internationally. With valuable degrees on the market, the early-to-market business schools could be very selective. International students really were “gravy”, bolstering profits and allowing business school academics to continue their operations and for staff to be paid at a higher rate than other academics.

But, as universities in Australia came under financial pressure, more and more academics travelling abroad or with international connections would frequently attend student fairs, partnership negotiations or work on agreements with education agents to promote the university and increase international student numbers. With more competition in the education industry, the acceptable minimum level of student capabilities started to drop.

By better understanding the full-cost profile of international students, particularly the ongoing and significant cost of managing the gap between student capability and academic demands, universities may be able to target higher-capability students, who cost less to service and are less conducive to corruption, and still retain profitability.

Because few universities contacted by the Commission actively measure administration costs of their international students beyond admission processing, these costs remain hidden. Further, few universities have systems capable of capturing the data about the full cost of sourcing and educating an international student and, even if they do, few can map the information to specific markets or intermediaries.

Where systems have been developed to analyse costs, there have been benefits. One university reported to the Commission that it uses cost information from their international student cohorts to develop a more profitable

revenue stream. It does this by accurately measuring the outlays and management costs of students for each cohort of international students and agents. This includes marketing expenditure, the cost of visiting agents and markets, and the cost of vetting each application. These data allow the university to not only identify the markets and agents who are the most efficient but also to determine which cohorts and markets of international students are, in fact, profitable.

Universities can, however, go one step further than measuring the direct costs of recruitment and vetting. They can also measure the costs associated with international students once they enter the university. International students, for example, differ in their need for remedial assistance, in their need for more extensions and their need to submit more applications for special consideration, or are generally more demanding of teaching and administrative staff's time than other students. Each of these activities is costly but few universities measure these costs or consider them when determining their recruitment strategies.

In one exception, a business school at a large university in NSW has sought to quantify costs associated with international students in each market it recruits from, including the cost of remedial programs needed to ensure that students are capable of passing their selected course. If students fail onsite assessment tests, they are forced to complete remedial programs and this is costed too. While expensive to run, these programs allow universities to improve both the literacy of students and measure the costs associated with doing so for international students from each of their source markets. The quality of the student and the costs of servicing them can be captured by the international student office and mapped back onto markets and agents.

## Entering markets without a thorough consideration of risks

Just as cost is peripheral to market strategies for some universities, so is risk. Markets are often targeted based on potential sales with little regard for risks or how these risks could be controlled, which leads to problems (such as pressure on admission processes and academic standards) further downstream. To increase its number of international students, one university doubled the number of international students from risky markets. Many of these students, however, did not commence study or had their visas rejected by the DIBP, problems that would have been anticipated had risk been central to the decision.

Most universities in Australia have large intakes from China (a nation ranked in 100th place out of 174 countries in Transparency International's 2014 Corruption Perception Index), with Chinese students making up one-third of all

international students in Australia. The DIBP reported that at least two universities in NSW have high intakes from markets where the risk of students (or their agents) falsifying at least some part of their enrolment documentation is high, and one of these universities targets very high-risk areas, such as Punjab in India and Nepal. Information obtained during a Commission interview with DIBP staff indicated that many of the students from these very high-risk areas were more interested in immigration than education.

The director of the international student office at one university in NSW indicated they were actively pushing into markets in India where document fraud is a known and serious problem. Most universities in NSW also continue to find international students themselves submitting false documentation to gain enrolment to, or progress through, university courses. In one case, an international student who was failing subjects and had no money to pay for their degree, was investigated. The student had used identity fraud to enrol and progress through their degree.

During interviews with university staff, the Commission was told that in some cases overseas officials sought or offered bribes to university staff to secure financially important partnerships with universities. In other cases, overseas universities and intermediaries had falsified their credentials to appear to be quality institutions to secure partnerships to boost their own reputation and income.

For most universities in NSW, these problems are not isolated cases but involve numerous students over long periods of time. Yet, the riskiness of the market and known problems often do not deter universities in NSW. For many the Commission spoke with, fraud is separated from market strategies and managed during the admission process; although, as a senior university administrator noted, "relying on admissions processes to prevent visa fraud is like relying on a car's airbag to prevent an accident".

Despite the general picture of downplaying risk, the Commission did identify numerous examples of universities in NSW that gave risk a central place in market decisions.

For one university, the decision about which student market to target is informed by an evaluation of the risk of attracting students likely to violate visa conditions or perform poorly during study. Some of the indicators used by this university include a country's general immigration risk (as indicated by the DIBP Assessment Level Framework),<sup>45</sup> any relevant information about markets (such as socio-economic and political information) from the DIBP or the Australian Department of Foreign Affairs and Trade, and the incidence

45 The Assessment Level Framework rates various countries according to the risk that student visa applicants will violate their visa conditions. Higher ratings are indicative of greater risk, with higher risk applicants required to produce greater documentation when applying for a student visa.



of visa condition violations from both their own and other educational institutions.<sup>46</sup> Information on the academic performance of current and past students from this market, numbers of enrolment rejections (from their own and other institutions), and any information on the market they are able to glean from their education agents are also sources of information. Where the risk is high and the university decides to enter the market anyway, it imposes a more rigorous process when engaging agents and more closely vets student applications from these areas.

Some universities contacted by the Commission have sought to reduce risk in international student recruitment by adopting a niche approach to marketing. One university was able to focus its market strategy around its strength in its nursing program while another was able to carve out a niche area in agriculture studies. By targeting students in subject areas where the university excels, they are able to recruit students with higher academic capability. This niche strategy reduces the size of the gap between student capability and academic demands, and reduces the pressures on students to collude with staff or for staff to turn a blind eye to academic misconduct.

A senior administrative director with whom the Commission spoke described a very different approach to risk. Information about risk is generated through research on which international markets have education systems that are adequate to equip applicants with the prerequisites for the program and where local demand for graduates in the home country is strong. With this knowledge, the university has been able to develop a far more focused marketing strategy. The administrative director likened this new approach to a “pipeline” where genuine students were targeted from the outset. This replaced the previous “funnel” approach, where the university targeted the maximum number of students possible and then filtered them at admission. The result has been a reduction in the cost of marketing and enrolment processing and, according to the director, a better performance of the university’s international student cohort, likely because fewer poorer-performing international students entered the university.

In summary, universities in NSW are in a difficult position as price takers in a highly competitive and commoditised international student market, where supply exceeds demand. Many are accepting lower-capability students without understanding the costs incurred and are entering increasingly risky markets without risk being central to their market strategies. Yet, the Commission spoke with a number of universities that have improved their market strategies by making cost and risk central to their decision-making. Some focus is required on the following:

- maximising profit rather than revenue by accounting for the full cost of international students and the risks of international markets
- measuring and tracking the gap between student capability and academic standards, and the cost of remedies/rectification required by each market
- adjusting risk controls based on the known risks
- playing to strengths and pursuing lower-risk markets
- walking away if it gets too expensive or risky to operate.

<sup>46</sup> Another university examines findings of the DIBP’s Migration Review Tribunal to identify any issues with foreign markets in which the university is involved and to alert the university of any new visa scams.



## Chapter 3: Controlling agents: the dangers of intermediaries

In a highly competitive export industry like education, universities have had to draw on as many markets as possible to obtain the necessary numbers of students. Rather than concentrating on dominance in a small number of markets, universities have frequently spread themselves across many markets. The distribution costs and development of capabilities across so many different markets are beyond the capability of most universities.

Given the diversity of foreign regulations, education systems, and languages, universities in NSW would find it difficult to market themselves in all the international locations from which they recruit students. Like any such exporters, they use agents with good knowledge of local markets as a cost-effective way to perform marketing and recruitment on their behalf. In many countries, students and their families also prefer to use agents due to lack of time, confidence or, often, English-language skills to complete applications, lodge visas, and so forth. For most universities contacted by the Commission, around 60% of international students are recruited through recruitment agents, making most universities highly dependent on agents for much of their international revenue stream.

While it is a sensible export model, the choice of markets and agents has too often been loose. Some of the agreements with agents and partners were reached on behalf of the universities by academics, department heads and deans who had an existing research interest or were travelling in a particular area. As a result of this process, universities in NSW often found themselves in relationships with 200 or 300 agents in a diverse range of markets.

Dealing with a large number of agents, who have significant autonomy and an independent agenda, is challenging. While they are seeking commissions from placing students in their client's universities, it is in their interest to have the student placed in a university where they will pass. They are likely to consider the size and timing of the commission, the

administrative burden placed on them by the universities and their reputation in the local market, and so forth. Their goals, therefore, are not fully aligned with those of the universities. The student capability gap is not central to their concerns. They are more interested in ensuring the students that they recruit enrol successfully so they can receive the commission.

As a result, unchecked credentials, students with poor English-language proficiency and collusion between agents and students, are all problems the universities face; in turn, they then contribute to the problems on domestic campuses when the students arrive.

The Knight Review, a comprehensive review by the Australian Government of the student visa program released in June 2011, identified that “a majority of students, particularly in India and China, use agents ... [and that] a recent review by DIAC [Department of Immigration and Citizenship] resulted in over 200 agents in India, China and Australia [being] suspended, including for providing fraudulent information in support of a student visa application”.<sup>47</sup> The review further noted that:

*...while the extent to which they [agents] are employed varies among education providers, almost every provider makes some use of agents, the quality of agents varies enormously. At one end of the spectrum are groups like IDP. IDP has over 40 years experience in student placement services. At the other end of the spectrum are certain sole traders with not much more than a catchy title, a string of promises and a mobile phone.*<sup>48</sup>

<sup>47</sup> Australian Government, *Strategic review of the student visa program*, 30 June 2011, p. 137, accessed at [www.immi.gov.au/students/\\_pdf/2011-knight-review.pdf](http://www.immi.gov.au/students/_pdf/2011-knight-review.pdf).

<sup>48</sup> *Ibid.*, p. 107.

IDP Education, a large agency with a network of over 80 international student placement centres in more than 25 countries, is co-owned by 38 Australian universities and SEEK Ltd. While IDP appears to deliver the highest number of international students to Go8 universities, it is not the only supplier. The reality is that most universities deal with many other agents to deliver on their international student intake targets. Some of these agents are large, with between 30 and 40 branches in a key target market such as China, or with operations in Australia. Most agents, however, are sole traders or small agencies, operating in metropolitan as well as remote, rural areas of the numerous source countries.

Some agents have more information than others to influence universities. At one extreme, as key suppliers of international students to many competing universities all over the world, some large agencies are in a strong position. They can be thought of as brokers, dealing with many competing universities rather than as agents helping the universities market themselves to eligible international students.

At the other extreme are small agencies and sole traders. While less powerful, they are large in number, often operate in remote areas and often generate relatively small amounts of revenue. Managing, not to mention overseeing, a large number of small-value operators over a large distance is challenging. An international recruitment manager interviewed by the Commission noted that there is a “very long tail of the number of small recruitment agents receiving funding from universities, and although some smaller agents are credible, there are a great number that pose potential risks”. A PVC (external relations) also noted that, “having large numbers of contracts or relationships with agents and small numbers of inexperienced [university] staff creates a strong risk of corruption”.

Large and small agents present two very different types of problems. A small number of large agents are in many ways more powerful than their university clients. They are well placed to thwart efforts by the universities to dictate probity processes and to conduct compliance audits. The large number of small agents poses a very different problem. They are too widely spread and produce relatively few students, which makes it difficult to justify close oversight.

## Powerful agents

Large agents are the key suppliers of international students to universities in Australia and, consequently, have high bargaining power. This is even more apparent in markets that are tightly controlled or limited, such as China<sup>49</sup>. Agents are often in relationships with many different universities and bring together multiple buyers and sellers. With minimal substitute sources of applicants, universities

49 J Krasocki, *Education UK: developing the UK's international education agent network*, Education UK, British Council, March 2002.

are more dependent on agents than vice versa. Agents can provide lower-quality students or reduce supply to certain institutions because they have other keen buyers lining up for their “product”.

A PVC responsible for international affairs told the Commission that agents have a significant capacity to influence students as to which university to attend and the course in which they enrol, and have a lot of information about the intention of the students to complete the course or not. A university audit and risk director interviewed by the Commission said that agents are effectively franchising the name and reputation of the university, but are also known to be “double-dipping” by promoting multiple higher education institutions.

More recently, universities in NSW have increased the use of contract terms to redress problems that derive from this power difference. Universities have tightened their contractual arrangements with agents to meet the requirements set out in the 2007 National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students (“the National Code”)<sup>50</sup> and the *Education Services for Overseas Students Act 2000*. Contracts specify the responsibilities of the agent, how universities will monitor the agent, and the conditions for termination of the agreement.

But tighter contract management is of limited effectiveness in a situation of power difference. One of the universities interviewed by the Commission requires agents to develop a process for vetting students before applications are sent to the university. The university, however, cannot know how effective their vetting process is and can only examine the later performance of the students to determine whether the students were “genuine” or not. The university’s recent forays into the Indian market resulted in between 5% and 10% of students dropping out of the course before, or soon after, they commenced, despite agents apparently having vetting processes in place. The university followed these cases up with the agents responsible to attempt to lower this rate and has achieved some success.

According to some university administrators, staff who visit agents often do so under the pretence of inspecting operations but mainly aim to maintain and strengthen the relationship to ensure the agent continues to direct students to the university. Given the relationship-building purpose of trips, one university auditor noted that these staff members

50 The code is “a set of nationally consistent standards that governs the protection of overseas students and delivery of courses to those students by providers registered on the Commonwealth Register of Institutions and Courses for Overseas Students”, and is established under the *Education Services for Overseas Students Act 2000*, accessed at <https://internationaleducation.gov.au/Regulatory-Information/Education-Services-for-Overseas-Students-ESOS-Legislative-Framework/National-Code/Pages/default.aspx>.

were more susceptible to entering collusive relationships with agents to boost the number of applications sent to the university. During an interview, the Commission was given an example where marketing staff at one major university had personal and financial interests in the agents they were overseeing. At least one major university rotates staff through these roles to prevent collusive relationships developing with agents.

Similarly, the National Code says that termination must occur where an agent acts dishonestly or facilitates the enrolment of a student who the agent believes will not comply with student visa conditions. However, it leaves the possibility to avoid termination by saying that this rule “does not apply where an individual employee or sub-contractor of the education agent was responsible for the conduct ... and the education agent has terminated the relationship with that individual employee or sub-contractor”.<sup>51</sup>

In one case, two Indian agents recently submitted a high number of fraudulent applications from a particular region of India to a partner of a university in NSW. A senior administrator from that university told the Commission that this triggered an audit of the partner, which identified that about 95% of the applications were fraudulent. Since the applications were submitted to an important partner of the university, the university insisted that the employment of the responsible staff member from the partner be terminated. The university increased the frequency with which it monitored the partner, but did not terminate the contract since it relied heavily on the partner to supply students.

In another case, a large university in NSW recently discovered that an agent had submitted an application that contained fraudulent documents. Rather than terminate the contract, however, the university forced the agent to terminate the employment of the staff member responsible for the application.

While there are benefits to tightening contract management in dealing with the imbalance of power, some universities have turned to modifying agent incentives to try to improve compliance. Agent commissions, often between 10% and 15% of first-year course fees at an Australian university, are typically paid in full when a student enrolls – strongly motivating agents to ensure that applicants pass only the admission process, rather than performing well at university. Some universities in NSW have now changed to an instalment structure, with the final payment made only

when the student graduates. Under this approach, part of the commission is paid up front, part at the completion of each year of study, and the final payment upon graduation. Later payments are sufficiently large to serve as a genuine incentive for agents to provide quality students to the university.

Other universities in NSW have sought to shift agent incentives by introducing tiered arrangements to reward long-term performance. Agents are placed into tiers according to their track record of providing the university with high numbers of students (over an extended period) who successfully enrol and complete courses. Higher-tier agents receive higher commissions per student and are given priority application processing to reduce the interval between submitting an application and receiving a confirmation of enrolment. This also gives universities a way of discouraging agents from providing them with borderline or dubious-quality students, since the university can demote agents to lower tiers.

While there is no complete solution to the practical problems created by the power imbalance that exists between the agent and the university, tighter contract management in combination with modified incentives may improve the situation.

## **Tyranny of distance: managing the long tail of small agents**

Many agents, particularly small and niche agents, are located in distant and remote locations around the world, which creates significant oversight problems for universities in NSW. A senior administrator of a university in NSW told the Commission that the issue is even more pressing in rural areas where universities tend to have less control over recruitment and where their reputation in those smaller markets is easily damaged if students from the area are known to have “failed”.

To source students from a multitude of small places and emerging markets necessarily involves dealing with small local agents. Large agencies, such as IDP, are not located in all areas or do not have the niche capabilities. The result is that universities maintain relationships with a very large number of small agents spread across a large geographic area.

With such high numbers, monitoring becomes difficult. These universities have staff or a team of regional managers constantly travelling around the world to maintain agent relationships and monitor their operations. One interviewee explained that this is a double-edged sword. While these managers are employees of the

<sup>51</sup> Department of Education, Employment and Workplace Relations, *National code of practice for registration authorities and providers of education and training to overseas students 2007*, 1 July 2007, s 4.4 p. 14, accessed at [https://internationaleducation.gov.au/Regulatory-Information/Education-Services-for-Overseas-Students-ESOS-Legislative-Framework/National-Code/Documents/National\\_Code\\_2007\\_.pdf](https://internationaleducation.gov.au/Regulatory-Information/Education-Services-for-Overseas-Students-ESOS-Legislative-Framework/National-Code/Documents/National_Code_2007_.pdf).

university, they rarely return to the Australian campus and can be difficult to control.

Some universities in NSW have started to actively reduce the number of agents with which they work. One of the universities interviewed by the Commission has reduced its agent numbers from over 200 to approximately 60. Another engages with only one or two agents per market with a preference for IDP, wherever possible. The aim is to reduce agent numbers without reducing profit.

Those universities that have reduced their number of agents mostly did so using their data on successful enrolments. Heads of international student offices, PVCs of international affairs and senior admission staff all indicated to the Commission that the number of successful enrolments, or sometimes the ratio of successful enrolments to applications, were the predominant considerations in deciding which agents to retain.

## Assurance of agent integrity

Without exception, all universities contacted by the Commission had experienced instances of agents submitting false documentation, assisting students to corruptly pass admission processing or attempting to bribe staff to approve certain student applications. An international student recruitment manager from a university in NSW had recently terminated contracts with three agents from the Fujian province in China for helping students to falsify their applications. Another manager stated that it was not uncommon for someone in third-party document-checking companies to receive bribes from students or agents to approve an application or verify a document.

Although universities have long been grappling with agent integrity issues, the introduction of streamlined visa processing (SVP) in 2012 by the Australian Government provided further incentive to take action. SVP is a simpler process by which students can obtain a study visa to Australia and is overseen almost entirely by universities (and other select education providers) rather than the DIBP.<sup>52</sup> In combination with the National Code, SVP requires universities to proactively monitor their education agents to ensure their risk rating remains below problematic levels. The visa changes shifted much of the visa management responsibility onto the universities and made universities responsible for monitoring their agents and for ensuring that the students they enrolled were genuine.

<sup>52</sup> SVP does not apply exclusively to universities. On 23 November 2014, SVP arrangements were extended to 55 vocational education and training providers that offer advanced diploma level courses. Submission by the Commonwealth and Overseas Student Ombudsman: *Future directions for streamlined visa processing discussion paper*, 16 December 2014, accessed at [www.pc.gov.au/research/current/international-education/comments/submissions-test/submission-counter/comment008-business-attachmenta.pdf](http://www.pc.gov.au/research/current/international-education/comments/submissions-test/submission-counter/comment008-business-attachmenta.pdf).

Universities have been responding to concerns around integrity by improving their due diligence on agents, utilising their data on student performance, forming and investing in close, mutually rewarding relationships with high-integrity agents (including increased auditing rights) and regularly sharing information with other universities and the DIBP. The effect of legislative changes has been significant. SVP places the burden, and therefore cost, of vetting applications onto universities and can penalise them for approving student applications that the department later rejects or revokes. Universities across the sector have, consequently, adopted a far more targeted approach towards agents, trying to use agents the university thinks will provide graduating students.

All universities contacted by the Commission make use of formal and informal networks of universities to exchange information on agent performance.

Some universities perform rigorous due diligence checks on agents before they will accept an application (at least one of the universities contacted by the Commission approaches the Australian High Commission and AusAID for assistance in finding agents in some of their target markets). Some universities prefer to partner with education agents who are registered with the Australian Government Office of the Migration Agents Registration Authority (MARA). Officials interviewed by the Commission also noted the importance of using relationships and networks to gather “intelligence” about some of the target markets and the agents.

Other universities have developed more intensive due diligence processes for evaluating whether to contract with certain agents, such as conducting character checks on senior agency staff (including whether these staff members have been previously employed with agents suspected of corruption), and examining the agent’s track record with other universities. Some universities also consult with other universities and Australian Government agencies, such as MARA, about the agent’s performance to ensure probity, and employ trial agreements where there is any uncertainty.

While all universities with which the Commission spoke monitor the academic progression of their international students, and some use this information to monitor agents, one was seeking to use more fine-grained academic indicators to evaluate agent performance. As one senior auditor at this university described, the academic performance of international students (including their grades, the number of extensions and appeals for which they apply, and any course attendance information) can be invaluable in determining the quality of students provided by individual agents and, therefore, in identifying better agents. These agents are, according to this auditor, more likely to assist only genuine students.

A quite different method is to tighten relationships with trusted agents with the aim of increasing business from trusted suppliers. A university that recruits heavily from the



high-risk markets of Nepal and India identified a particular agent who has demonstrated a very good track record of providing genuine students to the university. They have negotiated a specific contract with this agent to pay her more per application than other agents, recognising that her costs of verifying applications could be higher. Identifying and strengthening the relationship with trusted agents was a strategy identified by a few universities that spoke with the Commission.

The combination of strong due diligence, data analytics to monitor agent performance, with closer relationships forged with trusted agents, goes some way to dealing with integrity issues. Unfortunately, a number of universities continue to accept applications from any agent, regardless of whether they have a formal contract with the university or appropriate training and/or expertise.

## Partnerships

For many universities in NSW, the best solution is to limit the use of agents. A number have developed partnerships with overseas educational institutions (usually universities) to provide them with students directly. Developing partnerships has enabled universities in NSW to reduce their reliance on agents and grow their international student intake through a different channel. Arrangements take a number of forms, including:

- partnering with overseas universities that teach foundation programs and English-language courses
- universities in NSW licensing their course content to be taught entirely by another institution
- partnering with an offshore institution of similar academic standing.

Partnering with an institution with a similar academic standing was frequently proposed during interviews with the Commission as a way to improve the predictability of numbers and quality of the international student intakes at universities in NSW.

All universities contacted by the Commission noted during interviews that they had agreements with overseas institutions to provide them with students. For many universities, this was done under an “articulation pathway” model. Under this model, students complete part of their course at the overseas partner before coming to the Australian university to complete their course.

Most universities using this approach take students for the final two years of their degree (the students having completed either one or two years at the partner university, under so-called 1+2 or 2+2 programs). In addition to a non-agent dependent revenue stream, the advantages of this approach cited by these universities include:

- greater power in the relationship than that with agents
- the overseas partner university could be more comprehensively vetted to ensure its integrity
- articulation pathways usually provided higher-quality students and more stable, predictable revenue streams that allowed for greater time to manage costs.

The universities in NSW with which the Commission spoke said that they have strong positions in their partnerships. As one partnership manager at a university in NSW noted, the overseas university “gets to promote a western university degree, English-language qualifications, and is seen as more prestigious”.

A PVC (external relations) also noted that their university sends academics overseas to give lectures and oversee teaching and marking at a number of campuses belonging to their international partners to assist them in improving their standards. Doing so was noted as being of mutual benefit since it increased the partner university’s educational standards and, consequently, the quality of the students coming to Australia – an arrangement not possible with agents.

Under such an exchange, Australian universities can also better affect change in their partners. For example, when one university noted persistent plagiarism concerns with students coming from a particular partner, it was able to require the partner to implement a plagiarism education program in its course to remedy the problem.

Partnering programs also allow universities in NSW to better ensure the integrity of partner institutions than would be possible with agents. Universities can be vetted more thoroughly utilising the expertise of Australian universities in operational matters.

Three universities contacted by the Commission outlined in detail their rigorous due diligence and audit programs designed to accurately evaluate the financial, educational, research and management standards and the general reputation of their partner institutions. As well as conducting financial audits and business analyses to ensure their partners can reasonably provide sufficient numbers of international students to justify the expense of vetting and monitoring, these universities send teams of academics to evaluate course content, the quality of teaching and research, and student assignment and marking practices. These institutions also audit existing partners every six-to-12 months to ensure their admission and general administrative processes are sound.

A further advantage is that overseas partners typically provide universities with higher-quality students than many agents. As one standards director at a small university in

NSW noted, “students who have spent one year in higher education [before coming to Australia], are more mature and more accustomed to university life, meaning they present fewer problems”.

At another university in NSW, a PVC noted that their overseas partner’s competitive entry process for students and institutional reputation meant that student standards were high and represented a low risk of poor-quality or fraudulent students entering their university.

For example, one university in NSW has used a partnership to lower the risk of recruiting students from a high-risk market in Southeast Asia. This university has partnered with a large and highly reputable university to provide it with nursing students. The reputation of the Australian university’s course meant that the partnership was possible and the reputation and selectivity of the local university meant that the standard of international students provided was high.

While all universities involved in partnerships with overseas institutions noted the loss of some revenue due to the student completing part of the course overseas, all mentioned that the loss was compensated for in other ways. Leaving aside the lower risk and higher quality of students generally, almost all universities cited the more stable revenue stream and greater lead times afforded by partnership programs as a great advantage over agents.

Despite the positive aspects, partnerships are not a substitute for the use of agents. Given the numbers of students from partnership programs and the numbers of markets in which partnerships can be maintained, the model will not deliver the revenue that the universities in NSW now require. As the associate dean at a large engineering faculty noted, it had a long way to go before it reached its target of 30% of international students entering from overseas partners.

Partnerships and articulation pathway arrangements also have their disadvantages. One university in NSW commenced a 2+2 partnership agreement with a Korean partner only to discover that the students arriving had levels of English well below what the university considered acceptable. The university had to invest significant resources in the partner to improve the English-language proficiency of these students before the arrangement could continue. The international director of a large university in NSW reported ceasing numerous partnerships due to “risks, quality concerns, and damage to [the university’s] brand”. One university terminated a partnership only to discover shortly after that the partner was teaching the university’s courses using the university’s own course material.

In summary, dealing with intermediaries has become a problem for universities, and all who spoke with the Commission have experienced fraud or corrupt behaviour

by some of their agents and partners. Universities have been learning the hard way to work effectively with a large number of suppliers in distant locations and with students and other parties involved in the process. While some of the key issues have been attended to, the problem of dishonest and corrupt agent behaviour is far from being fully resolved. Further, while partnerships with overseas universities may offer a way of reducing the reliance on agents, they require constant vigilance to maintain and will never completely replace the use of agents.



## Chapter 4: Improving the internal operational arrangements of universities

For almost any organisation (university or otherwise), a tension will often exist between encouraging activities that generate profit and ensuring those activities comply with the law as well as the rules and goals of the organisation. In most large organisations, a separate compliance function, matched to the operational risks, is common.

But this basic principle of separating compliance from profit-generating activities is not reflected in the internal arrangements of universities in NSW. Compliance with academic standards has become intertwined with the incentives to grow the international student business.

Compliance with academic standards, in the loosely coupled arrangements of a university, is distributed across the organisation: registrars manage compliance with enrolment standards and the granting of degrees; PVCs and deputy vice-chancellors (DVCs) set academic standards, along with various standards committees; and deans and their offices, along with faculty academics, ensure that compliance with academic standards is implemented.

For much of their history, this was a satisfactory arrangement. In fact, universities could be characterised as compliance or regulatory organisations with a primary purpose of ensuring a student moved through only after demonstrating they had met the university's standards. From this perspective, they have parallels with financial regulators such as the Australian Prudential Regulation Authority. Such organisations work with their client groups to help them reach required standards, but are ultimately there to judge against the standards. As such, there is no conflict between business development and compliance.

It is when an organisation has both compliance functions and business development functions that they struggle to achieve balance. If compliance is too harsh, then the business is damaged. If it is too loose, the business may run amok.

Media reporting of one high-profile financial services case noted that the compliance unit was known as the “business prevention unit” for the stifling effect it had on business development. In fact, it turned out that not only was the compliance unit not a business prevention unit, but it was not effective in controlling the incentivised behaviour of the staff.

For financial services organisations, considerable effort is made to achieve the kind of balance that is outlined in this chapter. Almost invariably, the compliance function is separated from the business development function – often physically. The incentives applied to the business development side are matched by the strength of the compliance side.

Universities in NSW have not adopted these basic design principles. Rather than separate compliance and oversight from profit-generating activities as they moved into the international student business, the universities actively linked the two throughout their organisational structure. More problematically, they tied significant incentives to the growth of the international student business but had not strengthened the compliance function to deal with the pressure created by the incentives.

International student offices that are given targets or rewarded on volume of enrolments are also responsible for ensuring the authenticity of documents of those they enrol. Deans have their budgets tied to international student numbers while being the arbiter of academic standards. As the conflict between compliance and business development works through the hierarchical system, academics feel pressure to forsake their role in enforcing compliance with academic standards for the financial good of the faculty.

In a highly competitive industry, where universities are offering places to students who may struggle to pass, there will inevitably be conflict between maximising revenue and maintaining compliance with academic standards. But to

intertwine compliance and profit roles rather than separating them, and to reward profit over compliance, can be conducive to questionable and corrupt behaviour.

## Perverse incentives around recruitment

Faced with difficult markets that are characterised by students with low IELTS scores, false documents and agents colluding with applicants, international student offices play a central role in setting minimum standards of entry, specifying alternate entry pathways that require remedial study and verifying the credentials of the applicants. It is at the point of admission that the gap between student capability and the academic demands of the university is finally set and international student offices are central to the size of the gap.

Standard organisational design principles would separate the final line of defence from the business development function of marketing and generating a pool of potential applicants. Typically, however, within universities the international student office is tasked with both facilitating recruitment and regulating entry admissions.

One international student office at a university in NSW had its own student financial record system that operated independently from other areas of the university's administrative structure, making oversight of the office difficult. Further, staff within this office reported directly to the VC and PVC of international affairs, giving them significantly higher power in the organisation than those involved in compliance.

In another university, the international student office was comprised predominantly of sales staff who were resistant to oversight that would impinge on their ability to reach sales targets. The incentive for sales staff was to enrol as many students as the university could accommodate, knowing that once the students were enrolled, any weaknesses in their language or academic abilities would be dealt with by the faculty rather than by the international student office. Indeed, there was no disincentive to international student office sales staff to accept borderline or under-qualified students.

The tension between recruitment and academic standards is heightened where volume of recruitment is directly rewarded. The majority of universities in NSW contacted by the Commission had previously used incentives, such as bonuses and commissions, to reward their recruitment staff for reaching enrolment targets each year. Like many other industries,<sup>53</sup> universities have become increasingly aware that such incentive systems can lead staff to adopt dubious

53 DA Volkman and K Henebry, "The use of incentive contracting and firm reputation," *Corporate Reputation Review*, vol. 13, 2010, pp. 3–19.

practices to reach targets, and bonuses have been dropped.

At most universities, however, recruitment staff are still subject to recruitment targets. Although universities argue that "soft" targets have no negative consequences for failing to reach them, the targets still serve as a strong incentive for staff to focus on recruitment numbers rather than the quality of the students they are recruiting. The head of one international student office noted that "recruitment KPIs, regardless of how soft, create pressure to accept more marginal students or not undertake the necessary [admission] checks".

At one university in NSW, the number of places offered to international students at each school is determined by the international student office. Schools are directed as to what numbers and standards to accept. The Commission was informed that one school had been directed to accept a large cohort of international students from India who did not have the academic capability to complete the course. These operational arrangements created lasting tensions between the schools within this university and the international student office.

A number of ways to improve the arrangements around international student offices have been proposed to the Commission. One involves integrating the databases of the international student office with the rest of the university since, in many cases, for historical reasons, these offices have been set up with unique IT systems.

This independence impacts on the ability of the audit function to scrutinise the performance of the international student office. Migrating the databases and systems of the international student office into the university's standard platform better places the operations of the international student offices under the scrutiny of internal audit. Further, information from agents, markets and the performance of people within the international student office can be cross-referenced with the academic performance of students to hold the international student office accountable for the quality of students recruited.

One leading university in NSW is aiming to untangle the compliance and business development functions by separating recruitment from admission and placing the admission process within general university admissions. This approach is supported by senior risk and audit managers at two other universities, with one noting that the skills required for international admission processing were not beyond domestic admission staff.

Within most international student offices, the period between processing international student applications, checking qualifications against entry standards requirements, issuing offers and finalising enrolment, is short. There is pressure on administrative staff to process applications

quickly to enable an offer to be made before the competition. But funding of the verification activities is not commensurate with the demand for speed.

In one case recounted to the Commission, there was no funding to relieve the pressure created by a high volume of applications. During an interview, a staff member from the international student office said that, "...the dominant issue became one of speed and less about reliability, authentication and comparability of an applicant's qualifications".

## **Conflicting interests: interlinking budgets, international student numbers and entry requirements**

The Commission spoke with many universities in NSW that make faculty budgets (in particular, those of business schools) directly contingent on their international student numbers. It is estimated that between 50% and 60% of the fee revenue of each international student is allocated to the faculty in which the student is enrolled. Effectively, deans and faculty staff are incentivised to grow their international student numbers while they retain an unchanged responsibility for compliance with academic standards. Again, a central tenet of compliance is consciously linked to business development, and incentives are applied to the business development role. The compliance role is often not strengthened to match the increased risk.

Faculty budgets tied directly to the number of international students they enrol and pass creates strong pressure on heads of faculties to maintain or increase international student numbers by whatever means necessary or risk losing staff and programs that are not commercially viable. There is a relatively immediate and tangible downside to failing to meet targets but a more diffuse set of long-term problems arises from allowing in lower-capability students.

In one of many similar examples, the Commission was advised that the head of a faculty authorised waivers so that entire cohorts of international students could enter the program despite possessing IELTS scores that fell well below what the university had deemed acceptable. The authority to make an exception for English-language proficiency standards was intended to be used on a case-by-case basis for exceptional students who possessed strong academic ability. The strong revenue performance of the school in this university protected the head from real scrutiny by more senior levels of the administration.

The head of this particular faculty justified his actions by arguing that the support systems provided by the university

would allow international students to pass legitimately. However, these students struggled academically, regularly sought academic support and frequently required extensions for assessments. The internal auditor of the university raised concerns about this practice at the time but was unable to provide sufficient data to support the case. It took over two years to collate compelling data to demonstrate how the practice of IELTS waivers to maximise revenue damaged academic standards. As a result, the waiver policy in this university ceased.

In another university in NSW, deans are responsible for managing costs only, not revenue generation. Revenue from international students goes directly to the central administration and deans prepare a budget each year for negotiation with the central bureaucracy. There is no direct pressure on deans to increase international student numbers. For the effective functioning of compliance, this is a preferred arrangement. The dean leads academic compliance within the faculty, as has been the traditional arrangement of universities, and the international student business is managed by a separate part of the organisation.

This university, however, is facing revenue pressures and is concerned that the budget model provides minimal incentive for deans to recruit international students. The university is looking to move to the model that links revenue raising to the deans' budgets, even though the PVC for international affairs acknowledged that the deans would be under financial pressure and this would increase the risk that students with lower academic capabilities would enter the university.

Some universities in NSW are trying to manage the standards-revenue tension by manipulating the size of the incentive. The logic is that there needs to be enough incentive to encourage business development, but not enough to damage compliance. In practice, this can be very difficult to balance.

When revenue pressures make it too difficult to reduce the incentives on deans to recruit students, an alternative solution is to separate and strengthen the compliance process. One leading university in NSW is moving in this direction. The university recently organised an audit of course standards by a group of highly regarded Australian and overseas academics. This was designed to ensure the university's courses were of comparable standards to similarly ranked institutions. What it did, in effect, was to find a different way of separating compliance from business development (which now sits with the deans) and, at the same time, strengthen the compliance function.

## Governance of academic standards

Academic controls on standards and integrity help a university to maintain its reputation as a quality institution but they are also important for preventing corruption. Compliance with academic standards, for example, is a powerful way of minimising plagiarism, exam cheating and ghost writing. The implementation of academic policies, course design requirements, marking policies and exam and assessment standards are all part of the academic controls system. However, the diffuse, traditional control system currently found in most universities in NSW struggles to cope with the challenges of the modern international student business and highly organised cheating industries.

## The compromise of academic standards

The incentives placed on international student offices and deans ultimately have an effect on academics at the frontline through informal pressures and loss of decision authority around academic standards compliance. Some academics reported to the Commission that they experienced substantial pressure from university administrators and senior management to change grades.

In one example, the quality of work by students in a masters program was so poor that a lecturer failed half of the students. Under pressure, this academic reconsidered because he knew that such a high fail rate would not be accepted by the university administration; as a result, he rescaled the marks so that only 20% failed. In another case, the decision to re-mark was taken out of an academic's hands, and the Commission was told that marks were altered to meet the grading curve without informing the lecturer concerned.

There is a distinct disincentive for academics to fail a large proportion of international students, as it may be perceived by some as reflecting poorly on the academic and may discourage other international students from applying to the course. While the high fail rate may be justified, it may jeopardise an academic's promotion opportunities if senior personnel consider this to be indicative of poor teaching ability.

Academic standards can be undermined by the committees charged with the very task of ensuring that standards are maintained. Where a committee is comprised of staff who are also concerned with maintaining funding from international students, the intertwining of compliance and business development continues.

To minimise the influence of funding pressures in committees, some universities in NSW appoint a representative from another university to sit on academic standard committees. This approach reduces bias because the person appointed is independent and has final say on all academic matters. This recommendation has also been made in the 2011 report of the Victorian Ombudsman.<sup>54</sup>

## Incentives generated by International English Language Testing System pathway programs

Pathway programs provide an alternative form of entry into university courses for international students. In 2013, 52% of international students gained direct entry into Australian universities, and the remainder gained entry into university by using an alternative pathway (for example, through intensive English-language courses or by enrolling in other courses).<sup>55</sup>

Prospective international students who do not reach the English-language proficiency requirements set by universities in NSW can apply for intensive English-language courses. It is estimated that around 28% of international students used this pathway.<sup>56</sup> Provided that students succeed in the pathways program, they are guaranteed entry into the university course. This allows universities in NSW to accept an intake of students who they would otherwise reject due to English-language proficiency concerns.

Intensive English-language courses provided by the university, or a wholly-owned subsidiary of the university, are valuable, and provide universities with a stable revenue stream. Many of the courses are sold to international students as a package by agents to fit within a five-year visa program. These packages generally comprise two years of English studies, followed by three years attending their chosen university course. Incentives are built into the system; that is, the university is guaranteed revenue both from the student attending the pathway program and from a guaranteed, additional three or more years funding once the student enters the university's mainstream program.

The effectiveness of such courses is unclear. Data indicates that, at least in the case of short preparation courses, they are not necessarily effective in improving the English-

54 Victorian Ombudsman, *Investigation into how universities deal with international students*, October 2011, accessed at [www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184](http://www.ombudsman.vic.gov.au/getattachment/77cae3f3-bbbb-4c4a-955b-be6ce1f9d184).

55 Department of Education and Communities, *Research snapshot, study pathways of international students in Australia, 2012–2013*, June 2014, accessed at <https://internationaleducation.gov.au/research/Research-Snapshots/Documents/Pathways%202014%20snapshot.pdf>.

56 Ibid.



language proficiency of all students. One study investigated a sample of 112 students who were enrolled in an intensive English-language course at four Australian and New Zealand language centres. Following the 10–to–12–week course, students, on average, gained half an IELTS band on the overall IELTS test.<sup>57</sup> There was, however, considerable variation in individual performance; some students demonstrated no improvement after the course and others declined in English-language proficiency.

Another study investigated the effectiveness of three types of English preparation courses for international students: an IELTS preparation course, a pre-session course on English for academic purposes, and students who completed both.<sup>58</sup> The average course length was between eight and nine weeks and 476 international students in the UK were studied. On average, students improved 0.21 of a band on the IELTS writing subscale, with one-third of students actually performing worse on the second IELTS test. The greatest gains were observed for students with lower IELTS scores to begin with than students who had higher English-language proficiency.

A senior academic from one institution with whom the Commission spoke, commented that students attending IELTS preparation courses tend to lag behind academically compared to those who gain direct entry, as they begin with lower English-language scores. The pathways programs are very attractive from a revenue perspective but are likely to be widening the gap between the capability of the student cohort and the demands of the university.

## Key corruption prevention initiatives

There are no simple satisfactory solutions to the problems created by a university's reliance on revenues from international students who struggle to meet the academic standards of the university that recruited them. There are, however, a number of initiatives that have been taken by various universities that can ameliorate pressures created by such a student capability gap.

The Commission has identified 12 corruption prevention initiatives that NSW universities should consider adapting and adopting as appropriate to their organisation. These include the need to consider:

1. restricting the freedom of academics to enter into binding agreements with overseas agents and partners on behalf of the university without considering the full cost and risk of such agreements
2. considering the full costs associated with international students of different capabilities when making marketing decisions; understanding profit rather than revenue contributes to a more robust minimum capability standard being established
3. assessing risk in markets and using this to develop risk treatments. These may include strengthening due diligence on agents, targeting of specific students, increasing vetting for students from high-risk markets or withdrawing from the market
4. building on university strengths, where possible, to develop niche international operations capable of attracting higher-capability students
5. altering incentive structures applicable to agents in order to encourage the provision of quality students. These may include performance ranking-based payments, payments linked to student progress at various stages, and payments linked to long-term performance of the agent
6. limiting the number of overseas agents with which the universities work, where possible
7. increasing due diligence on and monitoring of agents and partners, particularly focusing on the use of fine-grained data analysis of student issues that can be linked back to markets, agents and partners
8. forming closer relationships with trusted agents and building business through them
9. seeking partnerships with other educational institutions as an alternative to agents
10. integrating the IT system of international student offices with the main system to ensure that these offices can be held accountable for the quality of international students entering the university and that their operation falls under the jurisdiction of the universities' internal audit function
11. balancing the strength of the academic standards compliance system with the business development risks. This may include appointing an independent representative from

<sup>57</sup> C Elder and K O'Loughlin, "Investigating the relationship between intensive English language study and band score gain on IELTS," *IELTS Research Reports*, vol. 4, report 6, 2003, pp. 207–254.

<sup>58</sup> A Green, "Washback to learning outcomes: a comparative study of IELTS preparation and university pre-session language courses," *Assessment in Education: Principles, Policy & Practice*, vol. 14, no.1, 2007, pp. 75–97.

another university to sit on academic standard committees or auditing of course standards by well-regarded Australian and overseas academics

12. separating the compliance function from the business development function, as feasible. This may include moving the admission functions out of international student offices that are responsible for marketing and recruitment and limiting the impact of international student numbers on faculty budgets.











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