IN THE MATTER OF:

THE EXECUTIVE COUNSEL TO THE FINANCIAL REPORTING COUNCIL

- and -

DIANE JARVIS

PARTICULARS OF FACT AND ACTS OF MISCONDUCT

Introduction

1. The Financial Reporting Council ("**the FRC**") is the independent disciplinary body for the accountancy and actuarial professions in the UK. The FRC's rules and procedures relating to accountants are set out in the Accountancy Scheme of 8 December 2014 ("**the Scheme**").

2. On 4 October 2011 the Accountancy and Actuarial Disciplinary Board[1] ("**the AADB**") decided to refer for investigation by the Executive Counsel the conduct of Members and a Member Firm[2] in relation to the (1) preparation, approval and audit of the financial statements of Healthcare Locums plc ("**HCL**") and its subsidiaries for the years ended 31 December 2008 and 2009, (2) preparation and approval of the interim financial statements of HCL and subsidiaries for the six months ended 30 June 2010, (3) operation by HCL and its subsidiaries of the discounting facility with Barclays Bank plc during 2010 and (4) compliance by HCL and its subsidiaries with the National Health Services' terms and conditions as set out in the Framework Agreements since 1 January 2008.

3. On 11 October 2012 the AADB widened the scope of the investigation to include the conduct of Members and a Member Firm in relation to the (1) preparation approval and audit of the financial statements of Healthcare Locums plc and its subsidiaries for

---

[1] The Board with responsibility for the Accountancy Scheme prior to the transfer of its responsibilities to the Conduct Committee of the Financial Reporting Council in October 2012.

[2] References to "Member Firm" and "Member" in this document relate to the definition set out in paragraph 2(1) of the Scheme. References to 'member firm' and 'member' denote their membership of the Institute of Chartered Accountants in England and Wales ("**ICAEW**").

the year ended December 2007 and (2) preparation of management accounts and other information concerning the financial position of HCL during the period 1 January 2010 to 31 January 2011, and the provision of such information to advisors, shareholders and lenders of HCL and to the market.

4. The Respondent to these Particulars of Fact and Acts of Misconduct is Ms Diane Jarvis ("**Ms Jarvis**"). Ms Jarvis was the Chief Financial Officer ("**CFO**") of HCL between 2005 and March 2011. She is a member of the ICAEW.

5. This is the Executive Counsel's Particulars of Fact and Acts of Misconduct in relation to the conduct of Ms Jarvis during 2010 and early 2011 in her role as CFO of HCL in relation to the dishonest manipulation of HCL's management accounts to increase apparent profitability through over-accrual of revenue, allocation of staff costs to reorganisation costs, and over-capitalisation of costs.

Misconduct under the Scheme

6. Misconduct is defined in the Scheme as: "*an act or omission or series of acts or omissions, by a Member or Member Firm in the course of his or its professional activities (including as a partner, member, director, consultant, agent, or employee in or of any organisation or as an individual) or otherwise, which falls significantly short of the standards reasonably to be expected of a Member or Member Firm or has brought, or is likely to bring, discredit to the Member or the Member Firm or to the accountancy profession*."

The Respondent

7. Ms Jarvis qualified as a Chartered Accountant in December 1988 and was admitted to the ICAEW at that time. Ms Jarvis was appointed CFO of HCL in 2005**.**

8. As CFO, Ms Jarvis had primary responsibility within HCL for the preparation of the financial statements of HCL and its management accounts during the relevant period.

9. Ms Jarvis was suspended from her position at HCL on 25 January 2011. Following an internal investigation carried out by David Moffatt (the interim CFO following Ms Jarvis's suspension) which concluded that there were grounds for dismissing Ms Jarvis for gross misconduct, Ms Jarvis resigned from her position as CFO on 24 March 2011.

The Relevant Standards of Conduct

10. The standards of conduct reasonably to be expected of Ms Jarvis as a member of the ICAEW in the conduct of her role as CFO included those set out in the 2007 Code of Ethics issued by the ICAEW. The Fundamental Principles apply to all members and member firms of the ICAEW. They are framed in broad and general terms and constitute basic requirements of professional behaviour. The Executive Counsel refers to and relies on the applicable Fundamental Principles and Statements as extracted and annexed to these Particulars of Fact and Acts of Misconduct as Annex A.

The Respondent's Misconduct

11. As particularised below, the admitted acts of Misconduct relate to Ms Jarvis's conduct falling significantly short of the standards to be expected of a Member in that she:

11.1 accrued revenue in HCL's management accounts for 2010 in the knowledge that she nor HCL had no entitlement to such revenue; and/or

11.2 allocated staff costs to reorganisation costs in HCL's management accounts for 2010 in the knowledge that it was inappropriate and misleading to account for staff costs in this way; and

11.3 capitalised staff costs as intangible assets in HCL's management accounts for 2010 in the knowledge that it was inappropriate and misleading.

12. As a result of Ms Jarvis's Misconduct, HCL's revenue was overstated and its costs were understated in the 2010 management accounts, which were shown to external third parties (including potential investors), with Earnings Before Interest Tax Depreciation and Amortisation ("**EBITDA**") being overstated by up to £9.9 million for 2010.

HCL

13. HCL was incorporated as a private limited company on 16 April 2003 and became a public limited company on 14 October 2005 when its shares were admitted to trading on the Alternative Investment Market ("**AIM**") of the London Stock Exchange. In January 2011 trading in HCL's shares on AIM was suspended following an

announcement that it had uncovered accounting irregularities and Kate Bleasdale (the Executive Vice Chairman) and Ms Jarvis had both been suspended from their positions. At that time, the market capitalisation of HCL was approximately £127.5 million. Following the release of its financial statements for 2010 trading in HCL shares recommenced and yielded a market capitalisation of approximately £85 million.

14. At all material times, HCL carried on the business of identifying and sourcing candidates to fill temporary and permanent vacancies for healthcare professionals in the UK and around the world.

ADMITTED ACTS OF MISCONDUCT

ACT 1: OVER-ACCRUAL OF REVENUE

Ms Jarvis's conduct fell significantly short of the standards reasonably to be expected of a Member in that she accrued revenue in HCL's management accounts for 2010 in the knowledge that HCL had no entitlement to such revenue. Ms Jarvis thereby failed to act in accordance with the Fundamental Principle of Integrity, sections 100.4(a) and 110 of the Code.

Particulars

1. In or about April 2010, HCL decided to change its accounting policy so that revenue from international permanent placements ("**IPPs**") (i.e. the placement of a candidate in a permanent position in a country other than their home country) should generally be recognised only when the candidate commenced work. HCL had previously recognised revenue for IPPs when the candidate accepted an offer of employment. This change of policy resulted in a prior year adjustment which reduced revenue for the 2008 financial year by £1.929 million and reduced the accrued income balance as at 31 December 2008 by £5.993 million. These were material adjustments.

2. Throughout 2010, Ms Jarvis accrued revenue in HCL's management accounts despite the fact that she was aware that:

   2.1. the relevant candidates had not commenced employment; and

2.2. in some cases where the relevant candidate had not even applied for or accepted any position.

3. This resulted in the inflation of HCL's profit in HCL's management accounts. As at 31 December 2010, EBITDA was overstated in HCL's management accounts by approximately £2.7 million as a result of the recognition of revenue to which HCL was not entitled. The management accounts did not therefore give a true and fair view of HCL's profit and were misleading. Ms Jarvis knew that the over-accrual of revenue meant that the management accounts did not give a true and fair view of HCL's profit and were misleading.

4. The management accounts were, nevertheless, presented by Ms Jarvis to external third parties, including banks and potential investors, as being an accurate representation of HCL's performance.

5. For the avoidance of doubt, it is admitted by Ms Jarvis that her conduct was dishonest.

ACT 2: ALLOCATION OF STAFF COSTS TO REORGANISATION COSTS

Ms Jarvis's conduct fell significantly short of the standards reasonably to be expected of a Member in that she allocated staff costs to reorganisation costs in HCL's management accounts for 2010 in the knowledge that it was inappropriate and misleading to account for staff costs in this way. Ms Jarvis thereby failed to act in accordance with the Fundamental Principle of Integrity, sections 100.4(a) and 110 of the Code.

Particulars

1. Ms Jarvis allocated all costs incurred in respect of any member of staff who left HCL during 2010 to reorganisation costs in HCL's management accounts, even though those costs were not exceptional costs attributable to any reorganisation of HCL.

2. This resulted in those costs not appearing in HCL's profit and loss account and the inflation of HCL's profit in the management accounts. As at 31 December 2010, EBITDA was overstated in HCL's management accounts by up to £3.3 million due to the improper allocation of staff costs to reorganisation costs. Ms Jarvis knew that the allocation of staff costs to reorganisation costs in this way meant that the management accounts did not give a true and fair view of HCL's profit and were misleading.

3. The management accounts were, nevertheless, presented by Ms Jarvis to external third parties, including banks and potential investors, as being an accurate representation of HCL's performance.

4. For the avoidance of doubt, it is admitted by Ms Jarvis that her conduct was dishonest.

ACT 3: OVER-CAPITALISATION OF STAFF COSTS

Ms Jarvis's conduct fell significantly short of the standards reasonably to be expected of a Member in that she capitalised staff costs as intangible assets in HCL's management accounts for 2010 in the knowledge that it was inappropriate and misleading. Ms Jarvis thereby failed to act in accordance with the Fundamental Principle of Integrity, sections 100.4(a) and 110 of the Code.

Particulars

1. Ms Jarvis capitalised staff costs as intangible assets in HCL's management accounts for 2010 in circumstances where there was no proper basis for doing so. In this regard, on 24 March 2010, the Chief Executive Officer of HCL had sent an email to HCL's Financial Controller, (copied to Ms Jarvis) in which she asked him to *"come up with a timesheet template to be completed monthly"* to support the capitalisation of staff costs on IT projects from the second quarter of 2010 onwards. Despite this email, the costs improperly capitalised by Ms Jarvis were not supported by proper time records.

2. The effect of over-capitalisation of costs by Ms Jarvis was to inflate HCL's profit in its management accounts. As at 31 December 2010, EBITDA was overstated in HCL's management accounts by up to £4 million as a result of the improper capitalisation of costs. Ms Jarvis knew that the over-capitalisation of costs meant that the management accounts did not give a true and fair view of HCL's profit and were misleading.

3. The management accounts were, nevertheless, presented by Ms Jarvis to external third parties, including banks and potential investors, as being an accurate representation of HCL's performance.

4. For the avoidance of doubt, it is admitted by Ms Jarvis that her conduct was dishonest.

ANNEX A

RELEVANT EXTRACTS FROM THE ICAEW CODE OF ETHICS

Note: All extracts are taken from the 2007 edition of the Code of Ethics effective from 1 September 2006.

Fundamental Principles

Section 100.4:

A professional accountant is required to comply with the following fundamental principles:

100.4 (a): Integrity

A professional accountant shall be straightforward and honest in all professional and business relationships.

Section 110: Integrity

110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

It follows that a professional accountant's advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.

110.2 A professional accountant should not be associated with returns, communications or other information where they believe that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.