



CHARITY COMMISSION FOR ENGLAND AND WALES

Accounts monitoring review for the SORP Committee: Reviewing the SOFA formats used by charities with incomes between £250,000 and £500,000 and registered in England and Wales

Why are we reviewing the SOFA formats used by this group of charities?

The SORP gives charities with an income below £500,000 the option of using their own format ('natural classifications') for the statement of financial activities (SOFA) instead of the SORP's activity-based format.

The engagement strand feedback on expenditure classification includes: 'Natural classifications were mentioned by two strands in relation to simplifying accounting requirements, either by increasing the number of charities able to use the concession or increasing the prominence of the concession'.

A review would provide insight into whether natural classifications are widely used by the charities that are currently eligible to prepare their SOFA on this basis.

We have previously reviewed the SOFA formats used by non-company charities with an income between £25,000 and £250,000 that opted to prepare accruals accounts. We found that 75% of our sample of 55 charities had filed a SOFA. All except one of the charities that prepared a SOFA used an activity-based format. The remaining charities had provided income and expenditure accounts or, in a couple of instances, receipts and payments accounts. This research was included in our paper 'Improving the quality of smaller charity accounts' that was presented to the SORP Committee in November 2020. A link to the paper is at [SORP research papers](#).

A review of the SOFA formats used by charities with incomes between the accruals (£250,000) and larger charities (£500,000) thresholds would establish whether this group of charities are also largely choosing to follow an activity-based format.

How did we identify accounts for review?

We selected a random sample of 100 charities that had filed their 2020 annual return by 31 March 2021 and reported an income between £250,000 and £500,000. From this sample we identified the accounts that contained a SOFA, as required. 94 charities had prepared a SOFA.

What did we find?

We found that vast majority of charities with incomes between £250,000 and £500,000 chose to use the SORP's activity-based format rather than natural classifications. More than nine out of ten (93%) SOFAs used categories based on the SORP's format.

It is worth noting that one in six (16%) of the 'SORP-based' SOFAs appeared to be using older versions of the SORP. All but three stated in their accounting policies note that they were prepared under the current SORP (FRS 102).



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Implications for the SORP review

From this review, the inference is that practitioners are content with an activity based approach and that this approach can readily be applied to smaller charities. The review is unable to determine whether this preference is due to the SORP module 4 setting out a template for activity based reporting which is readily followed. Whereas no template for alternative reporting using 'natural classifications' is given or that 'natural classification' reporting is seen as less useful in telling the charity's story is not known.