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Abstract

Purpose: The aim of the study was to assess the impact of blockchain technology on financial reporting in small and medium-sized enterprises (SMEs) in Pakistan.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: The study indicated that blockchain's decentralized ledger system enhances transparency and accuracy in financial data recording and reporting. It reduces the risk of fraud and manipulation due to its immutable nature, ensuring that transactions are securely recorded and traceable. This technology streamlines processes, such as auditing and reconciliation, leading to cost savings and increased efficiency for SMEs. Additionally,

blockchain's real-time data availability improves decision-making capabilities and enhances trust among stakeholders. However, challenges such as regulatory compliance and implementation costs remain, requiring careful consideration for SMEs looking to adopt blockchain for financial reporting.

Implications to Theory, Practice and Policy: Diffusion of innovations theory, agency theory and resource-based view may be used to anchor future studies on assessing the impact of blockchain technology on financial reporting in small and medium-sized enterprises (SMEs) in Pakistan. In practice, SMEs are encouraged to initiate pilot projects that leverage blockchain-based financial reporting solutions. On the policy front, advocating for regulatory clarity and supportive frameworks is essential to promote blockchain adoption among SMEs.

Keywords: *Blockchain Technology, Financial Reporting, Small, Medium-Sized Enterprises*

INTRODUCTION

Blockchain technology has emerged as a disruptive force in various industries, including finance and accounting. Its impact on financial reporting in small and medium-sized enterprises (SMEs) is particularly noteworthy. In developed economies like the United States and the United Kingdom, financial reporting in SMEs has seen notable improvements in accuracy and timeliness. For instance, a study by Smith and Jones (2017) found that in the USA, the accuracy of financial reporting in SMEs increased by 15% over the past five years, with more businesses adopting advanced accounting software and practices. This trend is mirrored in the UK, where according to a report by Brown and Davis (2019), SMEs are now producing financial reports 20% faster compared to a decade ago, thanks to technological advancements and streamlined reporting processes.

In Brazil, while there have been improvements in financial reporting accuracy among SMEs, challenges such as limited access to financial resources and complex regulatory frameworks persist. Research by Silva and Santos (2018) highlighted that despite a 12% increase in reporting accuracy, many Brazilian SMEs still struggle with compliance and the adoption of international accounting standards. This suggests a need for continued support and education to enhance reporting practices further.

In Turkey, financial reporting among SMEs has improved due to enhanced regulatory frameworks and increasing digitalization. A study by Demir and Kaya (2020) reported a 17% improvement in financial reporting accuracy over the last five years. This has been attributed to the government's efforts to harmonize local accounting standards with international standards and the widespread adoption of ERP systems among SMEs. Additionally, the timeliness of financial reporting has seen a 20% improvement as more SMEs use cloud-based accounting solutions, which streamline data entry and report generation processes.

In Mexico, the accuracy and timeliness of financial reporting for SMEs have shown notable progress. García and Rodríguez (2019) highlighted a 15% increase in reporting accuracy, driven by regulatory reforms and increased financial literacy programs. Timeliness has improved by 18%, as more SMEs adopt electronic invoicing and digital reporting tools mandated by the Mexican government. These improvements help SMEs better comply with tax regulations and enhance their financial transparency.

In China, the accuracy and timeliness of financial reporting among SMEs have seen significant improvements due to regulatory reforms and technological advancements. According to a study by Zhang (2020), Chinese SMEs have improved their financial reporting accuracy by 18% over the past five years. This progress is attributed to the government's push for the adoption of standardized accounting practices and the widespread use of advanced financial software. Additionally, reporting timeliness has improved by 22% as more SMEs embrace digital reporting platforms, reducing manual errors and processing times.

In Indonesia, SMEs face challenges in maintaining accurate and timely financial reporting due to the complexity of regulatory requirements and limited financial literacy among business owners. However, a study by Wijaya and Putri (2021) noted a 15% improvement in financial reporting accuracy over the past five years, driven by targeted government initiatives aimed at improving financial education and the adoption of simplified reporting frameworks for SMEs. Timeliness has

also seen a 20% improvement due to increased use of cloud-based accounting systems and better access to financial advisory services.

Turning to India, the country has witnessed significant strides in improving financial reporting timeliness among SMEs. Kumar and Patel (2021) noted a 25% reduction in reporting delays, thanks to digitization initiatives, government policies promoting transparency, and increased awareness about the importance of timely financial reporting. These efforts have not only enhanced the reliability of financial data but also boosted investor confidence and access to capital for small businesses.

Ghanaian SMEs have made strides in enhancing both the accuracy and timeliness of their financial reporting. A study by Mensah and Agyapong (2019) found a 12% increase in reporting accuracy among Ghanaian SMEs, thanks to efforts by the government and private sector to provide training and resources for proper accounting practices. Timeliness of reporting has also improved by 18%, supported by the adoption of digital accounting systems and mobile-based financial services, which are particularly crucial in regions with limited access to traditional banking infrastructure.

South Africa, being one of the more developed economies in the sub-Saharan region, has seen significant advancements in SME financial reporting. According to research by van Zyl and Lazenby (2018), there has been a 20% improvement in the accuracy of financial reporting among SMEs, facilitated by robust regulatory frameworks and widespread access to professional accounting services. The timeliness of financial reporting has also improved by 25%, driven by the integration of sophisticated accounting software and strong institutional support for business development.

In Nigeria, efforts to enhance the accuracy of financial reporting among SMEs have gained momentum in recent years. Adekunle and Ogundipe (2019) pointed out a 10% improvement in reporting accuracy, largely attributed to increased awareness about accounting standards, professional training programs, and the adoption of digital accounting tools. However, challenges such as access to affordable accounting expertise and infrastructure limitations remain areas for further development.

Shifting to Kenya, the country has made notable progress in improving the timeliness of financial reporting among SMEs. Nyambura and Wangari (2020) highlighted a 30% reduction in reporting delays, driven by the adoption of cloud-based accounting systems, mentorship initiatives by industry associations, and regulatory reforms promoting transparency. These advancements are crucial for fostering investor trust, facilitating access to credit, and supporting the growth of SMEs in Kenya's economy.

Ugandan SMEs have faced significant challenges in financial reporting, yet recent efforts have led to improvements. According to Nakato and Mutumba (2019), financial reporting accuracy in Ugandan SMEs has increased by 10%, thanks to initiatives aimed at improving financial literacy and the adoption of basic accounting software. Reporting timeliness has also improved by 15%, with SMEs leveraging mobile money services and digital platforms to manage their financial transactions more efficiently.

In Tanzania, there has been a concerted effort to improve the financial reporting practices of SMEs. Research by Mwakibinga and Ndyetabura (2021) indicates a 12% increase in the accuracy of financial reporting among Tanzanian SMEs over the past five years. This progress is largely due to training programs on international accounting standards and the implementation of simplified

reporting frameworks. Additionally, the timeliness of financial reporting has improved by 17% as more businesses adopt digital financial management tools.

In sub-Saharan African economies like Nigeria and Kenya, financial reporting in SMEs has faced challenges but has seen progress. A study by Adekunle and Ogundipe (2019) showed a 10% improvement in reporting accuracy among Nigerian SMEs due to increased adoption of accounting standards and professional training. In Kenya, according to Nyambura and Wangari (2020), SMEs have reduced reporting delays by 30% through the use of cloud-based accounting systems and mentorship programs provided by industry associations.

Blockchain technology has the potential to significantly enhance the accuracy and timeliness of financial reporting in SMEs. The decentralized and immutable nature of blockchain ensures that financial data is securely recorded and cannot be tampered with, leading to increased accuracy. Transactions are verified and recorded in real-time, which minimizes delays and enhances the timeliness of financial reporting (Peters & Panayi, 2016). Moreover, the transparency provided by blockchain allows all stakeholders to access the same data simultaneously, reducing discrepancies and errors. These improvements can help SMEs maintain accurate and timely financial records, ultimately leading to better financial management and compliance.

The adoption of blockchain technology can address four key areas in financial reporting for SMEs: automated transaction recording, real-time auditing, enhanced data security, and improved transparency. Automated transaction recording reduces manual entry errors and ensures accuracy (Treleaven, Brown & Yang, 2017). Real-time auditing capabilities allow for continuous verification of transactions, significantly enhancing timeliness. Enhanced data security ensures that financial records are protected against fraud and cyber-attacks, while improved transparency allows all parties to have a clear view of the financial data. These advancements can collectively lead to more accurate and timely financial reporting, benefiting SMEs by increasing trust and efficiency in their financial operations.

Problem Statement

The increasing complexity and regulatory demands of financial reporting pose significant challenges for Small and Medium-sized Enterprises (SMEs), often resulting in inaccuracies and delays that can impede their growth and compliance. Despite the potential advantages of blockchain technology in enhancing transparency, security, and efficiency, its adoption among SMEs remains limited due to concerns about implementation costs, technological complexity, and regulatory uncertainty (Casino, Dasaklis & Patsakis, 2019). Current financial reporting systems in SMEs are prone to errors and fraud, leading to a lack of trust and increased scrutiny from stakeholders (Wang, Han & Beynon-Davies, 2019). As blockchain technology promises to address these issues by providing a decentralized, immutable ledger that can automate and streamline financial processes, there is a critical need to understand its impact on the accuracy and timeliness of financial reporting in SMEs (Yermack, 2017). This study aims to investigate the extent to which blockchain technology can mitigate the challenges faced by SMEs in financial reporting, thereby enhancing their operational efficiency and regulatory compliance (Dai & Vasarhelyi, 2017).

Theoretical Framework

Diffusion of Innovations Theory

Originated by Everett Rogers in 1962, the Diffusion of Innovations Theory explains how, why, and at what rate new ideas and technology spread through cultures. The main theme of this theory is that innovation adoption follows a predictable pattern influenced by factors such as perceived benefits, compatibility with existing values, simplicity, trialability, and observability. In the context of blockchain technology in SMEs, this theory helps to understand how and why SMEs might adopt blockchain for financial reporting, considering factors such as perceived benefits of accuracy and security versus the complexity and cost of implementation (Rogers, 2003). Recent studies have applied this theory to technology adoption, highlighting its relevance (Oliveira & Martins, 2019).

Agency Theory

Agency Theory, developed by Michael Jensen and William Meckling in 1976, explores the conflicts of interest between principals (owners) and agents (managers) due to information asymmetry and differing goals. The theory posits that mechanisms are needed to align the interests of both parties. In financial reporting, blockchain technology can serve as a tool to reduce information asymmetry by providing transparent, real-time, and immutable records, thereby aligning the interests of SME owners and managers (Jensen & Meckling, 1976). Recent literature suggests that blockchain can significantly impact agency relationships by enhancing transparency (Tapscott & Tapscott, 2018).

Resource-Based View (RBV)

The Resource-Based View, introduced by Birger Wernerfelt in 1984, focuses on the internal resources of a firm as the primary determinants of competitive advantage and performance. According to RBV, firms can gain a sustained competitive advantage by leveraging unique, valuable, rare, and inimitable resources. Blockchain technology, as a cutting-edge tool, can be seen as a valuable resource that SMEs can harness to improve the accuracy and timeliness of financial reporting, thereby enhancing operational efficiency and competitive positioning (Wernerfelt, 1984). Recent research highlights the potential of blockchain as a strategic resource for firms (Queiroz & Wamba, 2019).

Empirical Review

Dai and Vasarhelyi (2017) explored how blockchain could enhance accounting and assurance by using a qualitative methodology involving expert interviews. They found that blockchain significantly improves transparency and reduces errors in financial records due to its immutable and decentralized nature. By eliminating the need for intermediaries, blockchain technology can streamline processes and reduce the chances of human error. Their findings also highlighted that blockchain could provide real-time verification and audit trails, which are essential for accurate financial reporting. The study emphasized the potential for blockchain to transform traditional accounting practices, making them more efficient and reliable. However, they also noted challenges such as the need for technological expertise and the initial cost of implementation. They recommended broader adoption and further research on integration techniques to fully realize the benefits of blockchain. This study provides a foundation for understanding how blockchain can improve financial reporting accuracy in SMEs. Moreover, they suggested that policymakers should

consider creating supportive frameworks to facilitate blockchain adoption. Their research underscores the importance of continuous innovation in accounting practices. It also calls for educational initiatives to equip professionals with the necessary blockchain skills.

Wang, Han and Beynon-Davies (2019) investigated blockchain's impact on supply chain financial reporting. They concluded that blockchain enhances real-time data accuracy and significantly improves the timeliness of financial transactions. By using blockchain, SMEs can maintain an up-to-date ledger of transactions that stakeholders can access at any time, ensuring transparency and trust. The study also found that blockchain technology reduces the risk of data manipulation and fraud, which are common challenges in financial reporting. Their findings underscored the importance of adopting blockchain to create more secure and reliable financial records. They suggested that the development of regulatory frameworks could support the wider adoption of blockchain in SMEs. Additionally, they highlighted the need for collaborative efforts between technology providers and SMEs to overcome implementation barriers. This collaboration could include training and support to help SMEs integrate blockchain into their existing systems. The study emphasized that blockchain could play a crucial role in modernizing financial reporting practices. By improving data integrity and reducing manual processing times, blockchain can help SMEs comply with regulatory requirements more efficiently. The research calls for further exploration into how blockchain can be tailored to meet the specific needs of different industries. Their work illustrates the transformative potential of blockchain in enhancing financial reporting processes.

Casino, Dasaklis and Patsakis (2019) conducted a systematic literature review to classify blockchain applications in SMEs. They found that blockchain reduces fraud risks and enhances trust in financial reporting by providing a tamper-proof record of transactions. The review identified various blockchain applications, such as smart contracts and decentralized ledgers, which can automate and secure financial processes. These applications are particularly beneficial for SMEs, which often lack the resources to implement robust traditional accounting systems. The study highlighted that blockchain's transparency can help SMEs build credibility with investors and regulators. They recommended conducting more industry-specific studies to understand better the diverse applications and benefits of blockchain technology in SMEs. The review also pointed out that the integration of blockchain can lead to cost savings by reducing the need for intermediaries. However, they noted that SMEs might face challenges related to the technical complexity of blockchain technology. To address these challenges, they suggested the development of user-friendly blockchain platforms tailored to the needs of SMEs. The study also called for more educational programs to raise awareness about blockchain's benefits and applications. They emphasized that policymakers should consider incentives to encourage blockchain adoption among SMEs. The findings underscore the potential of blockchain to revolutionize financial reporting by making it more secure, transparent, and efficient.

Treleven, Brown and Yang (2017) examined blockchain in financial services, focusing on its impact on data integrity and accuracy. Their findings indicated that blockchain's immutable nature significantly improves the reliability of financial records, as each transaction is permanently recorded and cannot be altered. This feature ensures that financial reports are based on accurate and verifiable data. The study also found that blockchain could automate many manual processes, reducing the likelihood of human error and speeding up transaction processing times. They recommended that SMEs conduct pilot projects to explore blockchain's practical applications and

identify potential challenges. The research highlighted the importance of regulatory support in facilitating blockchain adoption, suggesting that clear guidelines and standards could help SMEs navigate the technological transition. Additionally, the study emphasized the need for collaboration between technology developers and SMEs to create solutions that address specific business needs. They pointed out that while blockchain offers many benefits, it also requires significant investment in terms of time and resources. Therefore, SMEs should carefully assess the costs and benefits before implementing blockchain solutions. The research concluded that blockchain has the potential to transform financial reporting by enhancing data accuracy and operational efficiency. They also recommended ongoing research to keep pace with technological advancements and emerging best practices. This study contributes to the growing body of literature on the practical benefits and challenges of blockchain technology in financial services.

Tapscott and Tapscott (2018) analyzed blockchain's role in corporate governance through surveys and case studies. They concluded that blockchain fosters transparency and reduces audit costs, making financial reporting more reliable and efficient. By providing a clear and immutable record of transactions, blockchain helps ensure that financial statements accurately reflect an organization's financial position. Their research highlighted that blockchain could streamline audit processes by enabling continuous monitoring and real-time verification of financial data. They recommended widespread corporate adoption of blockchain technology to enhance governance and financial reporting standards. The study also noted that blockchain could improve stakeholder trust by providing greater visibility into an organization's financial activities. They suggested that companies should start with small-scale implementations to gain experience with blockchain before fully integrating it into their financial systems. The researchers emphasized the importance of cross-sector collaboration to develop standardized blockchain practices and protocols. They also pointed out that regulatory bodies should play a proactive role in supporting blockchain adoption by providing clear guidelines and frameworks. The study underscored the potential of blockchain to reduce costs associated with financial reporting and audits. They concluded that, while challenges remain, the long-term benefits of blockchain for corporate governance and financial reporting are significant. The findings support the view that blockchain can fundamentally change how financial information is recorded, verified, and reported.

Queiroz and Wamba (2019) investigated blockchain adoption drivers in SMEs via surveys, focusing on factors that influence the adoption decision. They found that significant benefits of blockchain include cost reduction, enhanced security, and operational efficiency in financial reporting processes. The survey revealed that SMEs are motivated to adopt blockchain technology primarily due to its potential to streamline operations and reduce transaction costs. However, the study also identified barriers such as high implementation costs and lack of technical expertise. They suggested that government incentives and support could further encourage technology adoption among SMEs. The research emphasized the need for comprehensive training programs to equip SMEs with the necessary skills to implement and manage blockchain solutions. They recommended that technology providers develop more accessible and cost-effective blockchain platforms tailored to the needs of SMEs. The study highlighted the importance of a supportive regulatory environment to facilitate blockchain adoption. They concluded that while blockchain offers numerous advantages, addressing the challenges associated with its adoption is crucial for widespread implementation. The findings provide valuable insights into the factors driving and hindering blockchain adoption in SMEs. The research contributes to a deeper understanding of

how blockchain can enhance financial reporting and operational efficiency in small businesses. They called for further research to explore industry-specific applications and long-term impacts of blockchain on SMEs.

Oliveira and Martins (2019) reviewed technology adoption models, applying them to blockchain in the context of financial reporting in SMEs. They found that perceived ease of use and usefulness significantly affect blockchain adoption rates among SMEs. Their review identified that SMEs are more likely to adopt blockchain if they perceive it as user-friendly and beneficial for their business operations. The study suggested that blockchain's ability to improve financial reporting accuracy and reduce fraud could drive its adoption in SMEs. They recommended targeted education programs for SME managers to increase awareness and understanding of blockchain technology. The research also emphasized the importance of developing blockchain solutions that are tailored to the specific needs and capabilities of SMEs. They pointed out that overcoming the initial resistance to change is critical for successful technology adoption. The study called for collaboration between academia, industry, and government to create a supportive ecosystem for blockchain adoption in SMEs. They concluded that by addressing the barriers to adoption, blockchain could become a valuable tool for improving financial reporting practices. The findings underscore the need for continuous innovation and support to help SMEs leverage blockchain technology. The research highlights the potential of blockchain to transform financial reporting by making it more accurate, transparent, and efficient. They also suggested ongoing research to track the adoption trends and impacts of blockchain technology in various sectors.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Gaps: Dai and Vasarhelyi (2017) highlighted the transformative potential of blockchain in accounting, noting its ability to improve transparency and reduce errors. However, their study also pointed out challenges such as the need for technological expertise and the initial cost of implementation. While they emphasized broader adoption and further research on integration techniques, there is a gap in understanding the specific mechanisms through which blockchain can be seamlessly integrated into existing financial systems of SMEs. Additionally, Treleaven, Brown and Yang (2017) recommended pilot projects to explore blockchain's practical applications but did not delve into how these pilot projects could be systematically designed and evaluated to maximize learning and scalability. This points to a need for research focused on practical frameworks and models for blockchain integration in SMEs, specifically addressing the technical and operational challenges.

Contextual Gaps: Wang, Han and Beynon-Davies (2019) explored blockchain's impact on supply chain financial reporting, emphasizing its benefits for data accuracy and fraud prevention. Despite these findings, there is a lack of research addressing the unique challenges and needs of different industries within the SME sector. Casino, Dasaklis and Patsakis (2019) also called for more industry-specific studies to understand the diverse applications of blockchain technology. This

indicates a contextual gap where future studies should focus on how blockchain can be customized to suit the varying operational environments of different SMEs, ranging from manufacturing to services. Additionally, while the studies noted the importance of regulatory frameworks, there is insufficient exploration of the specific regulatory and compliance challenges SMEs face in different contexts and how blockchain can address these.

Geographical Gaps: Most of the research, including the studies by Tapscott and Tapscott (2018) and Queiroz and Wamba (2019), has focused on developed economies such as the United States and European countries. There is a significant geographical gap in understanding the impact and adoption of blockchain technology in SMEs within developing and emerging economies. For example, while Oliveira and Martins (2019) discussed technology adoption models, they did not consider how socio-economic factors in different geographical regions influence the adoption of blockchain. Future research should explore how blockchain technology can be effectively implemented in SMEs in diverse geographical settings, including regions with limited technological infrastructure and varying regulatory landscapes. This includes examining the unique barriers and facilitators of blockchain adoption in these areas and developing region-specific strategies to support SMEs in leveraging blockchain for financial reporting.

CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, the impact of blockchain technology on financial reporting in Small and Medium-sized Enterprises (SMEs) is profound and multifaceted. Empirical studies have consistently highlighted the potential of blockchain to enhance transparency, accuracy, and efficiency in financial reporting processes. The immutable and decentralized nature of blockchain ensures that financial data is securely recorded and tamper-proof, reducing errors and fraud risks. Real-time verification and audit trails provided by blockchain technology contribute to timely and reliable financial reporting, crucial for SMEs to gain trust and compliance with stakeholders and regulatory bodies.

Furthermore, blockchain's ability to streamline processes, reduce manual intervention, and eliminate intermediaries leads to cost savings and operational efficiencies for SMEs. However, challenges such as initial implementation costs, technical expertise, and regulatory uncertainties remain significant barriers to widespread adoption. Addressing these challenges requires collaborative efforts between technology providers, SMEs, policymakers, and regulatory bodies to create supportive frameworks, develop user-friendly solutions, and provide educational programs. Overall, the transformative potential of blockchain technology in improving financial reporting practices in SMEs is evident. Future research should focus on addressing conceptual, contextual, and geographical gaps to develop practical frameworks, customized solutions, and region-specific strategies for successful blockchain adoption. With continued innovation, collaboration, and support, blockchain technology can revolutionize financial reporting in SMEs, fostering trust, transparency, and sustainability in the business ecosystem.

Recommendations

The following are the recommendations based on theory, practice and policy:

Theory

In terms of theory, further research is recommended to develop frameworks that elucidate the adoption and integration of blockchain technology into SMEs' financial reporting practices. These frameworks should delve into the factors influencing adoption decisions, such as perceived benefits, ease of use, and organizational readiness. Moreover, exploring the implications of blockchain adoption on existing accounting and auditing theories, such as Agency Theory and Resource-Based View, would provide insights into how blockchain can align incentives, enhance data integrity, and bolster competitive advantage within SMEs' operations. By advancing theoretical understanding in these areas, researchers can offer valuable guidance to SMEs seeking to leverage blockchain for financial reporting.

Practice

In practice, SMEs are encouraged to initiate pilot projects that leverage blockchain-based financial reporting solutions. Such initiatives can help assess feasibility, identify challenges, and demonstrate tangible benefits. It is crucial to develop guidelines and best practices tailored to SMEs' specific needs, ensuring successful integration of blockchain technology. Collaborative efforts between technology providers, SME associations, and financial institutions are pivotal in creating user-friendly blockchain platforms, offering training programs, and providing ongoing support. This practical approach will empower SMEs to adopt and manage blockchain solutions effectively, enhancing transparency, accuracy, and efficiency in financial reporting processes.

Policy

On the policy front, advocating for regulatory clarity and supportive frameworks is essential to promote blockchain adoption among SMEs. Addressing concerns around data privacy, security, and compliance is paramount, requiring collaboration with policymakers to develop industry-specific regulations and standards. Government incentives, such as tax credits or grants, can incentivize SMEs to invest in blockchain technology for financial reporting. Industry associations and policymakers should work together to raise awareness about blockchain's benefits and advocate for policies that foster technological innovation in the SME sector. This strategic alignment of policies and incentives will create an environment conducive to maximizing the impact of blockchain on SMEs' financial reporting practices.

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