

## ***AUDITING FAIR VALUES IN A SENSITIVE SOCIO-ECONOMICAL CONTEXT***

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### ***Abstract:***

*The concept of fair value was subject of many debates and disputes in recent years. These debates have focused mainly on the relevance of the concept, but also on the practical difficulties in determining reasonable estimates, raising particularly the interest of practitioners in terms of identifying the best valuation procedures and techniques, respectively auditing fair values. Determining the fair value involves a broad spectrum of approaches, from the simplest to the most complex and burdensome ones. In the current socio-economical context, market and stock volatility raises questions about fair values, even if there are conditions for the existence of market information. The problem gets more complicated where fair value is determined based on cash-flows, especially where there are uncertainties about the value and timing of cash-flows and adjustment rates, and the impact of used assumptions related to future conditions, transactions and events. Last but not least, assessment of fair value is based on the going concern assumption, which may not be applicable in the context of an economic crisis. The International Financial Reporting Standards (IFRS) provide for financial instruments to be measured generally at fair value. Because fair value is primarily assimilated with market price, its assessment requires the existence of a market able to operate under normal conditions, or in other words, sufficiently liquid to assess the price of financial instruments. And, one of the features of the current crisis consists in the significant decrease of liquidities on the market, which in turn caused a high impairment of derivatives (those based on American real estate). As American real estate can never be zero, market prices are not the real ones. However, this situation highlights the volume of liquidities available to buyers, which is a feature of imperfect markets. But the International Financial Reporting Standards did not anticipate the effects of liquidities on financial instruments, as their development is based on perfect functioning of financial markets. Under these circumstances, fair value measurement started to be increasingly criticised, and the International Accounting Standards Board (IASB) has changed the rules for measurement of financial instruments at fair value. Given the high degree of volatility, auditors should ensure that valuation methods and assumptions used by management under normal conditions for determining fair values are appropriate in a sensitive socio-economical context as well, and that the valuation model includes also the effects of subsequent events.*

***Keywords:*** *fair value, historical costs, fair value audit, volatility, economic crisis*

***JEL codes:*** *M10, M40, M42*