

This study is on the effect of budget padding in the Nigeria. The total population for the study is 200 staff of ministry of budget and national planning, Abuja. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up administrative staff, economists, supervisors and junior staff was used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

CHAPTER ONE

INTRODUCTION

Background of the study

A budget is a detailed financial plan that quantifies future expectations and actions relative to acquiring and using resources (Barro et al, 2007). It is a method of communicating the goals of an organization to the appropriate managers in order to facilitate, coordinate and control various sections of the organization so the desired outcomes are achieved (Argyris, 1953). According Abel and Andrew, (2005) Budget helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise. It also helps co-ordinate the activities of the organization by compelling managers to examine relationships between their own operation and those of other departments. Other essentials of budget include:

To control resources

To communicate plans to various responsibility centres managers.

To motivate managers to strive to achieve budget goals.

To evaluate the performance of managers

To provide visibility into the company's performance

For accountability

In summary, the purpose of budgeting tools includes: The tools provide a forecast of revenues and expenditures, that is, construct a model of how a business might perform financially if certain strategies, events and plans are carried out. They enable the actual financial operation of the business to be measured against the forecast. Lastly, they establish the cost constraint for a project, program, or operation. But “padding” a budget is slightly a different case from the above, thus padding the budget means making the budget proposal larger than the actual estimates for the project. This is done either by increasing a project’s expenses or decreasing its expected revenue. The goal of budget padding is to get an approval committee to grant an artificially high level of funding to the budget maker’s proposed project. Simply put, budget padding means overestimating costs and or underestimating revenue, whereas the difference between the padded estimate and the realistic estimate is known as “budgetary slack”. Budgetary slack is the inappropriate projection of lower revenues or higher expenses than is realistic or warranted during financial planning process for a project or business. Budgetary slack is considered an unethical business practice when intentional because it tends to give the false impression that the eventual performance of the associated business or project has turned out better than planned. (businessdictionary.com) However, there is some contention over the exact definition of padding: some contend that inflating expenses to take expected inflation into account is “responsible foresight” rather than padding, while others see any increase beyond current estimates as padding. Most business organizations that practice budget padding, call it “budget contingency”. On this note, they purposely incorporate certain risk factors into the budgeting process to help a business better prepare for potential contingencies. They may also use budget contingencies method to their advantage for meeting performance goals. However, unduly using budget contingencies may over stretch a business’s resources and result in unrealistic projections. Ordinarily, padding the budget is a practice that some people use in business when submitting a budget approval, to artificially inflate the proposed budget

in order to give the project room to expand or to cover the unexpected costs. Many see budget padding as “unethical”, but its practitioners defend it on the grounds “practicality”. (www.ehow.com/info_7751901_padding-budget) Budget padding on the table of private individuals and private business entities and enterprises have little or no negative or positive multiplier effect on the economy of the state, as it ends up only within their domains of operation, it hardly influences other individuals or business enterprises. It only impacts their niche economy, on this note; it remains on a microeconomic scale. But budget padding on the table of a national economy, translates into a macroeconomic scale of operation, thus the multiplier effect cannot be overemphasized as it influences the domestic working economy, mostly causing inflation (demand pull inflation) as well as foreign economies (in terms of trade) on the grounds of foreign exchange Unlike private business enterprises, where budget padding may be advantageous to, as they purposely incorporate certain risk factors into the budgeting process to help the business prepare better for potential contingencies and may also use budget contingencies method for meeting their performance goals, padding the budget of a national economy is mostly disadvantageous, as it constitutes tools for inflation, (demand pull inflation) because it draws more liquid cash into the economy, and more money in the hands of people leads to increased demand over less supply, thus making suppliers to raise their prices, thereby achieving higher profit margins. Padding the national budget however puts more money in the economy because the increased (false) monetary estimate of projects and or expenditures, away from the actual monetary estimates (known as the budgetary slack) floods the economy.

1.2. Statement of the problem

The issues associated with budget padding cannot be over emphasized, as it affects both microeconomic and macroeconomic (aggregate) units of an economy almost at all levels. Private enterprises budgets are handled by their managerial committees; however, even with private enterprises, unduly using budget contingencies (budget

padding) may over stretch a business's resources and result in unrealistic projections. At the national level, the office of budget and national planning are saddled with the responsibility of preparing the budget, however, many see the integrity of the budget as a function of the integrity of the persons in the budget office, therefore should "budget padding" be noticed in the national budget, the personal integrity and trust of the officers is been jeopardized. Many see budget padding as "unethical". Basically, budget padding is mostly associated with; Inflation: Padding a national budget constitutes tools for inflation, (demand pull inflation) because it draws more liquid cash into the economy, and more money in the hands of people leads to increased demand over less supply, thus making suppliers to raise their prices. Padding the national budget however puts more money in the economy because the increased (false) monetary estimate of projects and or expenditures, away from the actual monetary estimates (known as the budgetary slack) floods the economy. Unrealistic projections and goals: Budget padding May over stretch a business's resources, this mostly occurs because even the estimated figures are unreal, and the presence of the budgetary slack doesn't allow for realistic projections and thus goals. This is mostly in private enterprises. Many people consider budget padding as "Unethical": People consider padding as not morally bad, and a padded budget as an unrealistic estimates of expenses and lacks integrity.

OBJECTIVE OF THE STUDY

Research objectives are actions that are going to be taken to analyze the ills or setbacks associated with budget padding.

To examine the extent of effect of budget padding

To determine if budget padding has any positive effect

To determine if there is a way out of budget padding

To determine how budget padding constitutes a tool for inflation

RESEARCH HYPOTHESES

For the successful completion of the study, the following research hypotheses were

formulated by the researcher;

H₀: Budget padding does not influence inflation

H₁: Budget padding influences inflation

H₀₂: budget padding has no any positive effect

H₂: budget padding has any positive effect

SIGNIFICANCE OF THE STUDY

The vital component of any move towards macroeconomic stability and growth is an integrated effort towards price stability. In order to combat inadequacies in price stability mostly resulting from inflation, budget padding is to be checkmated.

Thus, this study is significant in the following ways: It will reveal the effects of budget padding in a national economy, thus a deterrent for practitioners or national budget and planning office as against budget padding. It will proffer solution on what to do should, budget padding be detected, and the way out of budget padding

SCOPE AND LIMITATION OF THE STUDY

This research work is basically carried out to assess the effects of budget padding in the Nigerian economy. Despite the moral suasion and the fight against corruption campaign of the government, unethical practices are still being perpetrated as no meaningful turn has been made towards actualizing ethical practices amidst national officers. Therefore, this study examines the challenges and ills arising from budget padding on the table of a national economy. Focus is placed more on the end results of budget padding – inflation, why must the budget be padded? How does budget padding constitute a tool for inflation? Does it have any positive effect on the economy? If yes, what is it? If no, then what is the way out of budget padding? The effect of budget padding on the economy shall be investigated empirically with only available data. The researcher encounters some constraint which limited the scope of the study;

a) AVAILABILITY OF RESEARCH MATERIAL: The research material available to the researcher is insufficient, thereby limiting the study

b) TIME: The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

c) Organizational privacy: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

1.7 DEFINITION OF TERMS

BUDGET: A *budget* is a financial plan for a defined period of time, usually a year. It may also include planned sales volumes and revenues, resource quantities

PADDING: Padding is thin cushioned material sometimes added to clothes. Padding may also be referred to as batting when used as a layer in lining quilts or as a packaging or stuffing material.

THE EFFECT OF BUDGET PADDING IN THE NIGERIA

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