

## Expenditures for Employees within Local Unit Budget

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### Abstract

**Purpose of the article** Purpose of the article is to research the effecting and share of expenditures for employees within the expenditures and expenses of local and regional self-government units, make conclusions on their significance and determine the tendency of changes in said expenditures and expenses in the period from 2015 to 2017. This paper determines the share of expenditures for employees in effected expenditures at the level of all units and the share of expenditures for employees in total expenditures and expenses at each level, i.e. at the county, town and municipality level. The amount and share of expenditures for employees in total expenditures of each county in the Republic of Croatia is examined as well.

**Methodology/methods** Method used in the paper is the analysis of total expenditures and expenses of all local units combined with relative figures (indices) and percentages. The correlation analysis method investigates the correlation between total expenditures and expenditures for employees. The method of comparing collected data for the period from 2015 to 2017 is used as well. Based on the collected data, all data has been consolidated and conclusions on changes in the expenditures for employees at levels of government, as well for each county, have been drawn. Data used in this research is the data of the Ministry of Finance, which is available on its webpages relating to budget execution at individual levels of government, as well as data collected from scientific literature.

**Scientific aim** Scientific aim is to research the amount of total effected expenditures by individual levels of government and to research the share of individual counties in total effected expenditures. The assumption is that the expenditures for employees have a significant share in total effected expenditures and expenses at the local unit level. Said expenditures must be monitored to determine how they change because local units must meet the public needs under their competence by using available budget funds.

**Findings** Findings confirm the assumption that the share of expenditures for employees at the level of individual local units varies and that said share is significant. The share of expenditures for employees in total effected expenditures and expenses has decreased. Expenditures for employees at the municipality level have the most significant share in total effected expenditures and expenses of all local units. Expenditures for employees at the level of individual counties are significant and their share in individual counties varies. The assumption on the correlation between employee expenditures and the size of total expenditures was confirmed.

**Conclusions** Conclusions relate to the necessity of decreasing expenditures for employees in total expenditures and expenses. Based on the conducted research of the amount of effected expenditures and expenses at the county level, it is visible that operating expenditures account for the most significant share in total effected expenditures and expenses. Research presented in this paper is aimed at financial indicators, whereas future research should be aimed at determining the number of employees in local units. The number of employees is not easily reduced. State and public institutions depend on IT systems and state auditors must pay attention to the reliability of computer data that is processed, maintained and reported through IT systems.

**Keywords:** audits, local and regional governments, budget, expenditures, expenditures for employees

**JEL Classification:** M42, H7

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## Introduction

Local and regional self-government units adopt the budget, in which they determine budgetary revenues and budgetary expenditures. Based on determined purposes, it is ensured that the budget is executed in accordance with budgetary revenues. The effecting of budgetary revenues must be constantly monitored. Local units must meet public needs under their competence by using available budget funds, for which they must implement the principle of efficiency and cost-effectiveness, as well as the principle of efficacy. Effected expenditures also include the expenditures for employees, which must be monitored to determine how they change within effected expenditures and expenses at the level of local and regional self-government units. The aim of this paper is to research the effecting and share of expenditures for employees within the expenditures and expenses of local and regional self-government units and to make conclusions on their significance. The assumption is that the expenditures for employees have a significant share in total effected expenditures and expenses at the local unit level. Data of the Ministry of Finance, which is available on its webpages relating to budget execution at individual levels of government, as well as data collected from scientific literature was used in this paper.

## 1 Expenditures and expenses

Firstly, when analysing expenditures and expenses, it is necessary to define these terms and explain basic characteristics of how they are recorded. Provisions of Article 20 of the Ordinance on Budgetary Accounting and Chart of Accounts (Official Gazette 124/14, 115/15, 87/16 and 3/18), define expenditures as decreases of economic benefits in the form of a reduction of assets or an increase of liabilities, whereas expenses are defined as outflows of cash and cash equivalents on all bases. Expenditures are generally divided into operating expenditures and expenditures for acquisition of non-financial assets. Operating expenditures include expenditures for employees, material expenditures, financial expenditures, subsidies, foreign aid and general budget support, benefits and other expenditures. Expenditures for acquisition of non-financial assets include acquisition of non-financial assets (land, buildings, equipment, vehicles and other). Budgetary expenditures and expenses effected may be analysed at the state and local levels, i.e. according to the level of funding public needs. The aim of this paper is to determine the amount and significance of expenditures for employees within budgetary expenditures and expenses of local and regional self-government units, as well as changes thereof in the period between 2015 and 2017. Likewise, the legal basis for effecting expenditures for employees is examined. Expenditures for employees and the amount thereof within total expenditures and expenses effected are examined and presented based on the type of expenditures and expenses (Table 1). Expenditures for employees are examined according to effecting thereof and according to the type of local unit, which includes effecting of expenditures at the level of all counties, at the town level and at the municipality level (Table 3). The third aspect presented in this paper are the effected expenditures for employees within total effected expenditures for each of the counties (Table 6). Based on the data collected, calculation of shares of expenditures for employees were made and indices were calculated. A comparison was made of the data collected and a conclusion was made in regard its significance.

## 2 Total expenditures and expenses effected

This section provides an overview of total expenditures and expenses effected at the level of all counties and the City of Zagreb. Total expenditures and expenses were analysed according to individual types, i.e. depending on how much of the budget funds was spent on operating expenditures, how much was spent on expenditures for acquisition of non-financial assets, and how much was spent on financial assets and loan repayments. Table 1 provides an overview of expenditures and expenses effected in all counties and the City of Zagreb in the period between 2015 and 2017, according to the type of expenditures and expenses. The absolute amount of total expenditures and expenses per county increased in almost all counties in 2017 in comparison with 2016, as well as in comparison with 2015.

**Table 1** Expenditures and expenses effected in all counties and the City of Zagreb, 2015 – 2017 according to the type of expenses and expenditures (in HRK)

	Indebtedness per capita	Number of inhabitants
Indebtedness per capita	1.000000	0.607692
Number of inhabitants	0.607692	1.000000

Source: author, according to the data of the Ministry of Finance

According to the data from Table 1, the shares of individual types of expenditures in total expenditures and expenses of the counties, towns and municipalities have been calculated. Also, relative figures (indices) have been calculated by comparing the expenditures and expenses effected in 2016 and 2017 with those effected in 2015 as the base year. Data in Table 2 indicates that the share of expenditures for employees in total expenditures had a tendency decrease in the observed period (9.27% in 2015, 8.88% in 2016 and 8.68 in 2017), whereas the indices above 100 indicate an increase in 2016 and 2017 in comparison with 2015. The share of expenditures for employees in the budgets of local and regional self-government units in Croatia and the City of Zagreb for 2008 is 16.4% (Čulo, 2011, p. 285). Consequently, we conclude that the share of expenditures for employee names tends to decrease.

**Table 2** Expenditures and expenses effected in all counties and the City of Zagreb, 2015 – 2017 according to the type of expenses and expenditures, relative figures

No.	Expenditures	2015	2016	2017
1	Operating expenditures	18,974,743,520	19,467,401,065	20,494,497,247
a)	Expenditures for employees	2,109,607,328	2,130,689,730	2,170,856,826
b)	Material expenditures	5,652,828,550	5,878,811,757	6,065,996,273
c)	Financial expenditures	323,362,240	291,302,699	264,152,687
d)	Subsidies	1,034,325,290	1,063,235,399	1,149,035,539
e)	Aids	5,952,086,092	6,183,606,856	6,655,975,158
f)	Benefits to citizens and households	1,175,137,383	1,175,628,676	1,379,300,825
g)	Other expenditures	2,727,396,637	2,744,125,948	2,809,179,939
2	Expenditures for acquisition of non-financial assets	2,812,074,069	3,519,061,292	3,482,875,265
3	Expenses for financial assets and loan repayments	972,379,314	1,017,888,586	1,059,616,789
TOTAL		22,759,196,903	24,004,350,943	25,036,989,301

Source: author, according to the data from Table 1

Operating expenditures have the most significant share within expenditures and expenses effected in 2017 (81.87%), followed by expenditures for acquisition of non-financial assets (13.91%) and expenses for financial assets and loan repayments (4.22%). In 2016, the share of operating expenditures remained the most significant and its amount was approximately the same (81.10%). These were followed by expenditures for acquisition of non-financial assets (14.66%), whereas the expenses for financial assets and loan repayments had the lowest share (4.24%). In 2015, the share of operating expenditures was the most significant (83.37%), followed by expenditures for acquisition of non-financial assets (12.36%), whereas the expenses for financial assets and loan repayments had the lowest share (4.27%). In comparison with 2015, almost all expenditures had a tendency increase in 2017 and 2016, with the exception of financial expenditures, which is visible from calculated base indices. Expenditures for employees are recorded within the operating expenditures. It is visible that the share of expenditures for employees in total expenditures and expenses decreased, although the expenditures for employees have a tendency increase in their absolute amounts. Regarding the expenditures for employees, their share amounted to 8.68% in 2017, 8.88% in 2016 and 9.36% in 2015.

### 3 Total effected expenditures by levels of local government

Below is an overview of effected expenditures and expenses according to the levels of local government. This includes effected expenditures of the towns, counties and municipalities in total effected expenditures. The paper examines the share of the towns, municipalities and counties in total expenditures and expenses effected at the state level. This is followed by an overview of effected expenditures and expenses for employees and a calculation of the share of expenditures for employees in the observed period at the county level.

### 3.1 Effected expenditures for employees by levels of government

It is important to determine effected expenditures by levels of local government to conclude which level of government has the largest share in the funding of public needs. Business operations of local importance in the Republic of Croatia are funded on three levels of local government: counties, towns and municipalities. In regard to the listed data, it is necessary to note the information related to the territorial division of the Republic of Croatia which pertains to the number of local units. The territory of the Republic of Croatia is divided into 20 counties as units of regional self-government, into towns and municipalities as units of local self-government (there is a total of 126 towns and 428 municipalities), and into the City of Zagreb, which has special status as both city and county. This means that there is a total of 555 units of local self-government and a total of 576 units of local and regional self-government (Act on the Territories of Counties, Towns and Municipalities in the Republic of Croatia, Official Gazette 86/06). A different number of towns and municipalities is found in the territory of each county. The most numerous are municipalities whose scope of self-government activities relates to: development of settlements and housing, physical and urban planning, utilities, childcare, welfare, primary healthcare, primary education, culture, physical education and sports, consumer protection, protection and improvement of the environment, fire protection and civil protection, traffic in their territory and other activities in accordance with special legislation (Article 19 of the Act on Local and Regional Self-Government).

Table 3 presents an overview of total expenditures and expenses effected and of expenditures for employees according to expenditures and expenses effected at the level of all counties and the City of Zagreb, at the county level, at the level of towns and municipalities combined, individually at the town level and individually at the municipality level. Table 4 contains a calculation of the share of expenditures for employees in total expenditures and expenses of the counties, towns and municipalities according to the data from Table 3.

**Table 3** Expenditures and expenses effected in all counties and the City of Zagreb, 2015 – 2017 according to the type of expenses and expenditures (in HRK)

No.	Expenditures	2015	2016	2017
1	Total all counties and City of Zagreb (20 counties + City of Zagreb)	22,759,196,903	24,004,350,943	25,036,989,301
1.1	Expenditures for employees	2,109,607,328	2,130,689,730	2,170,856,826
2	Total expenditures and expenses – COUNTIES (20 counties)	3,769,173,005	3,763,387,771	4,042,057,507
2.1	Expenditures for employees	363,945,830	358,431,056	356,109,348
3	Total expenditures and expenses - TOWNS AND MUNICIPALITIES (554 towns and municipalities)	18,990,023,898	20,240,963,172	20,994,931,794
3.1	Expenditures for employees	1,745,661,498	1,772,258,674	1,814,747,478
4	Total expenditures and expenses – TOWNS (126 towns)	15,167,749,172	16,281,722,950	16,821,168,494
4.1	Expenditures for employees	1,306,697,863	1,325,881,471	1,368,326,993
5	Total expenditures and expenses - MUNICIPALITIES (428 municipalities)	3,822,274,726	3,959,240,222	4,173,763,300
5.1	Expenditures for employees	438,963,635	446,377,203	446,420,485

Source: author, according to the data of the Ministry of Finance

Also, relative figures (indices) have been calculated by comparing the expenditures and expenses effected in 2016 and 2017 with those effected in 2015 as the base year. Data in Table 4 indicates that the share of expenditures for employees by individual levels of governments ranges from 8.13% at the town level in 2017 to 9.66% at the county level in 2015. The same author states that, for small municipalities with 29 and having up to

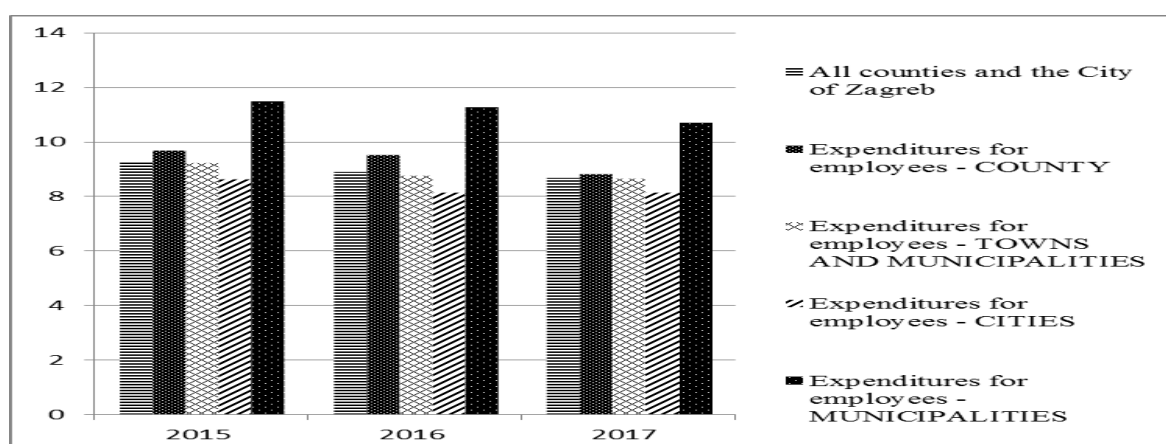
1 000 inhabitants, the average share of expenditures for employees in total expenditures in 2007 was 10.4% (Čulo, 2011, p. 294). At the level of all counties and the City of Zagreb, the share of expenditures for employees saw a decrease (8.68% in 2017, 8.88% in 2016 and 9.27% in 2015). At the county level, the share of expenditures for employees saw a decrease (8.81% in 2017, 9.52% in 2016 and 9.66% in 2015). At the county level, index for 2017

amounted to 97.85, meaning that the expenditures for employees in 2017 decreased by 2.15% in comparison with 2015. At the municipality level, the share of expenditures for employees is the most significant. In 2017, said share amounted to 10.7%, meaning that it decreased in comparison with 2015 (when it amounted to 11.48%) and in comparison with 2016 (when it amounted to 11.27%). Decrease in the share of expenditures for employees is also visible at the level of towns and municipalities combined, but also individually at the town level and individually at the municipality level. Calculated indices for 2017 indicate an increase, as well as calculated indices for 2016, with the exception of the expenditures pertaining to the municipalities. The absolute amount of total expenditures and expenses, as well as the absolute amount of expenditures for employees saw an increase, whereas the shares of expenditures for employees saw a decrease.

**Table 4** Expenditures and expenses effected in all counties and the City of Zagreb, 2015 – 2017 according to the type of expenses and expenditures, relative figures, from Table 3

No.	Expenditures	% 2015	% 2016	% 2017	Index for 2015 = 100	
					Index for 2016	Index for 2017
1	Total all counties and City of Zagreb (20 counties + City of Zagreb)	100	100	100	105.47	110.01
1.1	Expenditures for employees (1.1./1.)	9.27	8.88	8.68	100.99	102.90
2	Total expenditures and expenses – COUNTIES (20 counties)	100	100	100	99.85	107.24
2.1	Expenditures for employees (2.1./2.)	9.66	9.52	8.81	99.48	97.85
3	Total expenditures and expenses - TOWNS AND MUNICIPALITIES (554 towns and municipalities)	100	100	100	106.59	110.56
3.1	Expenditures for employees (3.1./3.)	9.20	8.76	8.64	101.52	103.96
4	Total expenditures and expenses – TOWNS (126 towns)	100	100	100	107.34	110.90
4.1	Expenditures for employees (4.1./4.)	8.61	8.14	8.13	101.47	104.72
5	Total expenditures and expenses - MUNICIPALITIES (428 municipalities)	100	100	100	103.58	109.20
5.1	Expenditures for employees (5.1./5.)	11.48	11.27	10.70	101.69	101.70

Source: author, according to the data from Table 3



Source: author according to the data from Table 4, columns 3, 4 and 5, rows 1.1., 2.1., 3.1., 4.1. and 5.1.

**Figure 1** Share of expenditures for employees in total expenditures at the level of all counties and the City of Zagreb, counties, towns and municipalities, cities and municipalities

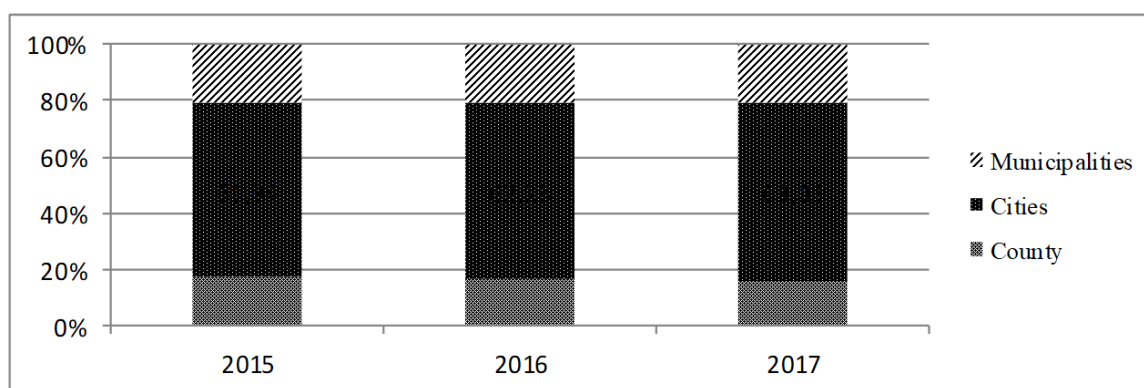
Figure 1 presents the share of expenditures for employees in total expenditures and expenses in 2015, 2016 and 2017, according to the data from Table 4. Share of expenditures for employees is presented at the level of all counties and the City of Zagreb, at the county level, at the level of towns and municipalities combined, individually at the town level and individually at the municipality level. In all observed years, the column representing the municipalities is the largest, meaning that the municipalities have the largest share of the aforementioned expenditures.

Table 5 presents an overview of expenditures for employees effected at the level of all counties and the City of Zagreb, at the county level, at the level of towns and municipalities combined, individually at the town level and individually at the municipality level. Table 5 also contains a calculation of the shares of expenditures for employees at individual levels of government and in total expenditures and expenses for employees (counties, towns and municipalities).

**Table 5** Expenditures for employees by government levels

No.	Expenditures	2015	% 2015	2016	% 2016	2017	% 2017
1	Counties (20 counties)	363,945,830	17.25	358,431,056	16.82	356,109,348	16.40
2	Towns and municipalities (554 towns and municipalities)	1,745,661,498	82.75	1,772,258,674	83.18	1,814,747,478	83.59
3	Towns (126 towns)	1,306,697,863	61.94	1,325,881,471	62.23	1,368,326,993	63.03
4	Municipalities (428 municipalities)	438,963,635	20.81	446,377,203	20.95	446,420,485	20.56
TOTAL		2,109,607,328	100	2,130,689,730	100	2,170,856,826	100

Source: author according to the data of the Ministry of Finance



Source: author according to the data from Table 5, columns 4, 6 and 8

**Figure 2** Expenditures for employees by government levels

Towns have the largest share in total effected expenditures for employees, followed by the municipalities and counties. This is also presented in Figure 2 for a better overview.

### 3.2. Expenditures for employees effected at the county level

Changes in effected expenditures for employees at the level of all counties and their share in total effected expenditures and expenses is presented below. Table 6 presents effected expenditures for employees in total expenditures and expenses effected at the county level in 2015, 2016 and 2017.

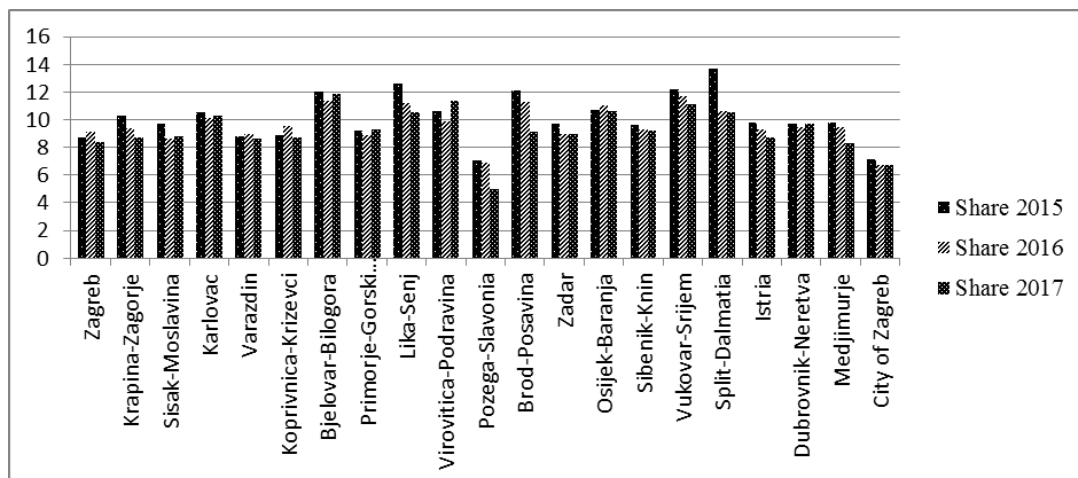
Data related to expenditures and expenses at the level of all counties includes expenditures and expenses of all municipalities, towns and counties.

**Table 6** Share of expenditures for employees in total expenditures and expenditures by county

County	Expenditures for employees (in HRK)			Share in total expenditures of each county		
	2015	2016	2017	2015	2016	2017
Zagreb	125,714,684	130,846,778	129,614,011	8.68	9.14	8.37
Krapina-Zagorje	43,433,452	42,454,098	41,161,040	10.28	9.38	8.73
Sisak-Moslavina	70,824,771	69,928,757	69,537,900	9.68	8.61	8.80
Karlovac	55,550,905	56,920,625	57,503,483	10.53	10.14	10.25
Varaždin	57,999,824	59,888,808	59,938,474	8.77	8.93	8.65
Koprivnica-Križevci	44,348,069	48,301,813	44,888,715	8.89	9.54	8.70
Bjelovar-Bilogora	48,859,137	48,802,691	49,262,451	12.03	11.33	11.82
Primorje-Gorski Kotar	187,875,385	188,100,023	192,271,338	9.21	8.90	9.26
Lika-Senj	38,297,748	38,930,286	39,919,359	12.60	11.19	10.53
Virovitica-Podravina	38,297,430	34,875,185	38,576,537	10.63	9.86	11.37
Požega-Slavonia	5,817,346	5,538,477	5,595,565	7.09	6.91	4.98
Brod-Posavina	53,032,175	55,128,254	49,285,677	12.10	11.27	9.14
Zadar	94,406,755	93,355,476	95,617,934	9.71	9.00	8.95
Osijek-Baranja	125,787,186	122,141,473	129,946,657	10.71	11.04	10.59
Šibenik-Knin	54,015,363	51,773,867	55,880,316	9.62	9.33	9.21
Vukovar-Srijem	76,340,132	79,960,807	77,118,892	12.18	11.71	11.08
Split-Dalmatia	241,075,144	241,932,176	246,677,369	13.72	10.59	10.51
Istria	155,948,924	153,240,560	156,467,833	9.75	9.26	8.74
Dubrovnik-Neretva	81,871,886	82,107,725	85,059,468	9.67	9.44	9.70
Međimurje	37,330,157	40,523,185	37,837,497	9.76	9.49	8.26
City of Zagreb	455,008,427	466,015,518	490,178,772	7.14	6.72	6.69
<b>TOTAL</b>	<b>2,109,607,328</b>	<b>2,130,689,730</b>	<b>2,170,856,826</b>	<b>9.27</b>	<b>8.88</b>	<b>8.67</b>

Source: author according to the Ministry of Finance

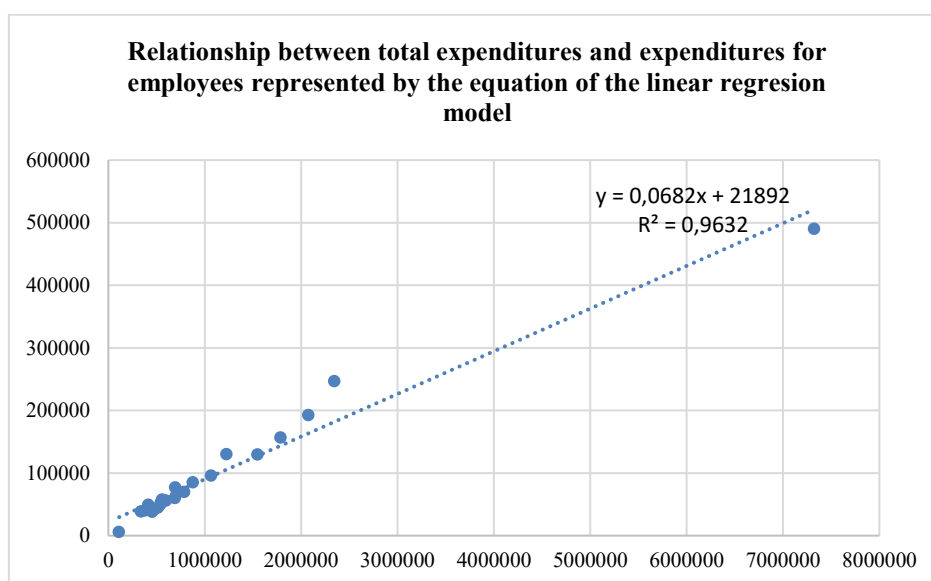
Said changes are listed in Table 6 and they are also presented in Figure 3 for a better overview. The average share of expenditures for employees in total expenditures and expenses at the level of all counties, excluding the City of Zagreb, amounted to 16.52% in 2004 and 16.03% in 2005 (Mahaček, 2007, p. 582). According to the data from Table 6, the share of expenditures for employees in total expenditures and expenses at the level of all counties and the City of Zagreb amounted to 9.27% in 2015, 8.88% in 2016 and 8.67% in 2017. We conducted a regression analysis by assigning an independent variable (x), total expenditures and expenditures in 2017 by counties.



Source: author according to the data from Table 6, columns 5, 6 and 7

**Figure 3** Share of expenditures for employees in total expenditures

For the dependent variables (y), we took the expense for the employees by counties in 2017. Using the statistical analysis by MS Excel (Papić, 2005, pp. 145-150), we obtained the equation of the linear regression model and the result was graphically presented (Figure 4).



Source: author's calculation

**Figure 4** Correlation of expenditures for employees and total expenditures

Figure 4 confirms positive and high correlation between the two phenomena. The uniform growth in total expenditures is accompanied by a steady growth in employee expense, which is also confirmed by the regressive coefficient b, which is positive.

### 3.3 Audit procedures for expenditures for employees

Audit of expenditures for employees is an integral part of the audit procedure for expenditures and expenses of local units, as well as of any entities performing a financial audit. Audit of expenditures and expenses must determine total effected expenditures and expenses in relation to planned expenditures and expenses, as well as in relation to the previous year. Also, it must determine the reasons for any material departures (Mahaček, 2016).



We get the information from the financial statements. The users of the financial statements are numerous, from the state, business partners and all the public. Especially when it comes to budget allocation. "In addition, it is necessary to point out that the financial statements are public documents and that market economies imply the freedom of disposal of information contained in the financial statements" (Tušek, Žager, 2006, p. 52).

In the audit procedure, it is necessary to determine the number of employees in local and regional self-government units and the number of employees of budget beneficiaries. The fundamental act governing salaries is the Act on Salaries in Local and Regional Self-Government Units (Official Gazette 28/10).

This Act prescribes the standards for determining salaries and benefits of county prefects, town mayors and municipal mayors and their deputies, as well as the salaries of officials and other employees at administrative departments and services of local and regional self-government units. General documents governing payment of salaries must comply with legal provisions. Payment of salaries in local units is performed under a decision on salaries. At the town level, this is a decision of the town council on salaries of town employees. At the level of municipalities, such decisions are adopted by the municipal council.

Objectives of auditing expenditures for salaries and liabilities for salaries require that the following be verified:

- Existence Payroll expense is a valid expense and related accruals are valid liabilities.
- Completeness: All payroll expense and related accruals have been recorded.
- Cutoff: Payroll expense and related accruals are recorded in the correct accounting period.
- Rights and obligations: All disclosed matters relating to payroll expense and related accruals have occurred and pertain to the entity.
- Accuracy: Payroll expense has been properly accumulated from journals and ledgers.
- Valuation Payroll expense and related accruals are valued in accordance with auditing standards.
- Classification: Payroll expense and related accruals are properly classified in financial statements.
- Disclosure: All disclosures relating to payroll expense and related accruals that should have been included in the financial statements have been included." (Messier Jr., 1998, p. 498).

Budget-based limitations on salaries have been determined in the Act on Salaries in Local and Regional Self-Government Units (Official Gazette 28/10). It has been determined that the budget-allocated funds for salaries of employees of a local or regional self-government unit cannot exceed 20% of the unit's operating revenue realised in the previous year less various aids, revenue realised on the basis of special agreements and aids from the state budget.

#### **4 Discussion**

Effecting of expenditures for employees in each local unit is an issue of great importance. Local units - municipalities, towns and counties - are numerous. In their internal documents, local units define the framework according to which employees' salaries are calculated and paid. In doing so, it is necessary to comply with legal provisions, which have limited the amount of budget-allocated funds for salaries in relation to budgetary revenues realised by local units and the amount of salaries. In case of higher budgetary revenues that do not pertain to state aids and assigned revenue (the allocation of which is prescribed by the law), employees' salaries can be higher as well. Local units use realised revenue to finance public needs. For that reason, the amount of expenditures for employees represents an important issue. Firstly, budget funds must be used to ensure proper functioning and fulfilment of requirements falling under the competence of local units. Local units should first justify the purpose of their existence and only then ensure salaries for their employees. Also, many other issues arise from the fact that the number of municipalities is large. Smaller municipalities have fewer employees, but the scope of their business operations is equal to that of larger units. Therefore, employees are required to be competent for performing multiple tasks. Salaries are limited, meaning that it is not possible to receive higher salaries for performing more tasks. It is necessary to research whether there are possibilities for increasing budgetary revenues, in particular revenues of municipalities, to make their role in financing and fulfilling public needs more prominent. Only then will it be justified to increase the employees' salaries.

## Conclusion

The paper contains a study of expenditures for employees in relation to their amounts and share in total expenditures and expenses and changes in their absolute and relative amounts. The assumption that the share of expenditures for employees at the level of individual local units varies and that said share is significant has been confirmed. The share of expenditures for employees in total effected expenditures and expenses has decreased, probably as a consequence of achieving compliance with legal provisions related to the limitations of salaries. Expenditures for employees at the municipality level have the most significant share in total effected expenditures and expenses of all local units. Nowadays, smaller local units also have fewer employees and their competence is prescribed by the law, which is why the employees must fulfil the requirement of performing multiple tasks they are assigned. Therefore, in relation to expenditures for employees and the necessity of ensuring funds for larger investments, other issues crucial for proper and efficient functioning of local units arise as well. The shares of effected expenditures for employees at the level of individual counties indicate that said expenditures are significant and that the share of individual counties in said expenditures varies. It can be concluded that the larger the share of expenditures for employees in total expenditures and expenses, the lower the amount of funds available to local units for financing other expenditures. Expenditures for employees are recorded within operating expenditures. Based on the conducted research of the amount of effected expenditures and expenses at the county level, it is visible that operating expenditures account for the most significant share in total effected expenditures and expenses, i.e. that a smaller portion of budget funds can be spent on expenditures for acquisition of non-financial assets, expenditures for financial assets and loan repayments. This paper examines the amount of and changes in expenditures for employees in local units and the correlation between employee expenditures and total expenditures. Future research should focus on the number of employees in local units. The area of expenditures for employees remains significant and it should be examined further to find the potential for a more useful and simpler use of the money from the state. This would be beneficial since municipalities are the most numerous of all local units and since their scope of activities includes a wide range of business operations, which require an adequate number of employees. To encourage economic development, it is necessary to make investments for which smaller local and regional units lack sufficient funds.

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