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Dimensions of Audit Committee Quality and CEO Compensation: Examining the Linear Relationship

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ABSTRACT

This study examined the linear relationship between audit committee attributes, proxied with audit committee female diversity, audit committee diligent meeting, audit committee independence and audit committee size and Chief Executive Officer's compensation, with firm size as a control variable. The study utilised data from 53 non-financial firms between 2013 and 2022 listed in the Nigerian Exchange Group. Using, STAT 14, the study also presented the descriptive statistics information, the correlation matrix and results of Random-effects GLS regression of the study. The results indicate that approximately 6.88% of the variation in Chief Executive Officer's compensation can be explained by the combined effect of the independent variables, as evidenced by an R-squared value of 0.0688 and an adjusted R-squared of 0.0599. The model's overall significance is confirmed by an F-statistic of 7.75 and a very low P-value (0.0000), we therefore reject the null hypothesis. The findings reveal that audit committee female diversity, audit committee diligent meeting, and audit committee independence do not have significant linear relationships with CEO compensation, as indicated by their respective P-values (0.542, 0.814, and 0.916). However, audit committee size displays a statistically significant negative linear relationship with CEO compensation (P = 0.000), suggesting that larger audit committees may be associated with lower CEO compensation due to increased oversight or stronger corporate governance structures. Consequently, further investigation with additional variables or alternative modelling approaches is recommended to gain deeper insights into other determinants of CEO compensation.

Keywords: CEO Compensation, Audit Diligent, Audit meeting, Audit Female Diversity, Firm Size
JEL Classifications: J31, M12, M421.

1. INTRODUCTION

The existence of an audit committee in a company can be seen as a mechanism by which the separation of ownership (shareholders) and control (managers) can be bridged. By performing their monitoring roles, they improve the financial reporting and audit functions by ensuring that internal control functions are effective and functional. Central to an entity's financial reports and the audit process is the management compensation program, which is included in the engagement contract with the firm's top executive, the CEO. Belikov (2019) and Ekokotu et al. (2024) suggested that it is paramount that this contract should address the conflict of interest that exists between both parties, as otherwise, the firm will seek a substitute system for effectively monitoring the CEO. For the firms, it would be beneficial for both parties to structure the contract which benefits both parties and ensures the stability or continuity of the CEO. In so doing, shareholders may agree to a higher compensation contract so as to reduce the factors that are usually associated with excessive riskiness and exposure, which the CEO may expose the firm to, all in the pursuit of their own self-wealth accumulation.

The effectiveness of audits and the framework of CEO compensation are considered crucial factors that have substantial impact on business performance and profitability, and consequently, shareholder trust. It is a product of the director's ability in supervising financial reporting which guarantees transparency in an organization. Audit committees are generally considered as a measure of audit quality based on its composition and qualities, which includes gender diversity, independence, diligence/meeting, and its size relative to the firm's size. Ebere et al. (2022) noted that the effectiveness of audits committee and the compensation of directors, including CEOs, are factors that impact the profitability of a company and the confidence of its stakeholders.

Recently, this significant responsibility has been extended to include not just the yearly financial statements but also the preparation of the quarterly financial reports and implementation of measures that improves the firm's operationality, (Adebayo et al., 2021; Sinebe, 2024). As a result, audit committees are increasingly taking on a greater role in supervising corporate reporting issues, as opposed to just financial reporting. Nnubia (2015) and Evdokimova (2021) suggested out that given the significant number of business collapses and failures, it is crucial for audit committees to be given greater importance in all corporate organisations. The audit committee, which serves as a link between the external auditor and the board of directors is expected to assess the firm's activities in a detached and dispassionate manner which helps in decreasing information asymmetry between the external auditor and the board (Abdulrahman, 2020). To buttress this assumption, Abdulrahman (2020) and Hassan et al. (2022) emphasised that the audit committee is the most essential corporate governance mechanism with respect to audit functions because it is responsible for appointing the external auditor and for reviewing audit quality.

In light of the aforementioned, this study seeks to;
- Analyse how the presence and proportion of female members on the audit committee influence the level of CEO Compensation.
- To determine whether the frequency and thoroughness of audit committee meetings (diligence) have any linear significant effect on the compensation packages of CEOs.
- To investigate how the independence of audit committee members, defined as members who are not part of the company's executive management, affects CEO compensation.
- To study the influence of the number of members on the audit committee (size) on the compensation of the CEO.

The study's controls for firm size aims to isolate the impact of audit committee quality on executive compensation, providing a more nuanced analysis of this complex dynamic operation. By achieving these objectives, the study aims to provide valuable insights into how the structure and practices of the audit committee influence executive compensation, which can inform corporate governance practices and policies. This research is particularly relevant for stakeholders such as shareholders, board members, regulatory bodies, and policymakers who are interested in ensuring effective governance and appropriate executive compensation practices.

2. LITERATURE REVIEW

One of the main concerns of the existing literature revolves around whether it is really necessary to regulate the audit committee quality. Jeroh et al. (2022) pointed out that the advocates of the voluntary approach suggest that enforcing additional regulation would reduce corporates' flexibility in tailoring the committee to the specificities of the corporate and that the committee's optimal composition should be closely related to the shareholders' right system. The restriction of specific types of directors imposed by the regulation would indeed deprive corporations from a precious talent pool composed of directors with high knowledge of the business activities. Benjamin and Karrahemi (2013) observed that at the same time, it is rather excessive to revoke these arguments, since it has been advocated that the main task for an audit committee is not to enhance the aspects mentioned above, but rather to enhance the willingness of the executives to adequately disclose financial information.

2.1. CEO Compensation

The agency costs of incentive-compensation-based corporate performance have been criticized, with critics arguing that shareholders' free riding behaviour undervalues the benefits of rewarding top executives, particularly the CEO. Akan et al. (2023) noted that large-scale incentive compensation packages tend to attract talented managers, but also create a moral hazard that may lead self-benefited managers to take excessive risks and choose projects with high benefits for themselves, not for shareholders, due to the long and uncertain future. CEO Compensation, which encompasses all the various compensations of CEOs and other top executives, is a significant component of corporate governance. Junaidu and Sani, (2014) suggested that it often consists of a mix of base income, bonuses, stock options, other long-term incentives and other performance-based incentives. The structure and amount of director remuneration are determined by various factors, including corporate performance, market conditions, and internal governance procedures (Olorede et al., 2022; Ekokotu et al., 2024). Compensation packages tend to be tied to performance targets; that is, the manager is paid based on his capacity to reach stated performance targets (Akewusola and Saka, 2018). However, in some situations, the performance target may not be reachable, which may result into forfeiting the linked incentives. Ordinarily, the establishment of performance targets which forms a basis for management remuneration should be a source of motivation, but due to the individualised character of humans, it has led to an undesired effect (Junaidu and Sani, 2014; Nazarkina et al., 2022). Olabisi (2022) and Ohidoa and Kolade (2024) noted that executive compensation is often utilised as a technique of making even the interest of managers and that of shareholder. Notably, some factors Influencing CEO compensation are Firm Performance, Corporate Governance Mechanisms and Market Conditions.

2.2. Audit Committee Gender Diversity (AUDFED)

This paper investigates the linear relationship between CEO compensation and audit committee quality. Previous literature suggests that audit committee quality and CEO compensation work together, with better oversight reducing the CEO's monitoring responsibilities and resulting in lower compensation. However, this relationship remains unexplored due to conflicting evidence and tainted constructs used to measure audit committee quality, casting doubts on the econometrics of the linear relationship. The composition of audit committees has been a topic of debate in corporate governance, with much of this focusing on expertise and gender diversity. Mixed empirical evidence on the impact of gender diversity on audit committee performance has shown mixed results, with some studies suggesting positive effects on financial reporting quality and firm performance, while others find no significant impact. The advantages of having a balanced gender diversity include enhanced decision-making and monitoring, improved monitoring, stakeholder confidence, trust and legitimacy, regulatory compliance, and alignment with social values (Chijoke-Mgbame et al., 2020; Chuma and Yahaya, 2024). Diverse committee are often seen as more innovative and capable of addressing complex problems from multiple angles. However, Sinebe and Okolo (2022) and Awen and Yahaya (2023) noted that there are also potential disadvantages associated with gender diversity, such as potential tokenism, conflict of interest, and inconclusive performance impacts based on sexual inclination. Also, Tijjani and Yahaya (2023) opined that female directors are often perceived as more diligent and ethical in their oversight roles, leading to more effective monitoring of management and financial reporting.

2.3. Audit Committee Diligence Meeting (AUDIME)

An audit committee is constituted to guarantee continuous contact between and among the external auditors and the Board. This constant communication can only be achieved where the committee meets on a regular basis with the auditors to evaluate the financial statements and audit processes as well as building improved internal accounting control and systems (Popov and Makeeva, 2022; Sinebe, 2023a; Anthonio and Yahaya, 2024; Rahaman and Bhuiyan, 2024). Ha (2022) and Blay et al. (2024) suggested that the regularity of their meetings is seen as a sign of diligence and an active audit committee, which focuses its time to addressing pressing issues and delivering better assessments that will in turn, help in spotting all types of misstatements in financial reporting, material or otherwise. Iheyen (2021) opined that the requirements of knowledge and independence will not necessarily lead to effectiveness unless the audit committee is diligent or active. As highlighted by Gambo et al. (2018) and Agada and Lazarus (2024) conscientious audit committees that meet often display greater dedication and interest and are more likely to be effective monitors. In other words, the frequency of audit committee meetings reflects whether the company is functioning or not. Since actual audit committee activity is difficult to measure directly, extant literatures are dominated by the use of the number of audit committee meetings per annum as a replacement for such activity or diligence (Sinebe and Edirin, 2023). However, the most common alternative employed in many research has been the number of audit committee meetings for each year. The study seeks to examine the correlation between director and auditor appointments, financial expertise index, and CEO compensation. It reveals that CEOs of firms with better audit committee quality receive higher total compensation flows. The audit committee diligence meeting (AUDIME) index measures financial expertise on the audit committee, based on the subjective judgment of the firm and auditor. The index is sensitive to actual committee attendees, with a perfect score for the entire audit committee and a score for non-attending board members.

2.4. Audit Committee Independence (ACINDP)

The independence of audit committee members has been a focus in research due to its impact on monitoring effectiveness. However, the relationship between independence and stewardship vigilance remains unclear. Studies show that independent audit committees often fail to exercise scepticism and exercise vigilance, especially since the early 2000s corporate collapses. A higher degree of independence may lead to fewer unreasonable extra audit fee negotiations, potentially influencing audit quality or high fee income support. An audit committee fulfils the role of evaluation of financial statement and related information on clarity, completeness and dependability. Managers, in other to earn a satisfactory level of compensation, could participate in opportunistic actions such as the manipulation of financial information which indicates a misleading performance of the company (Kushubakova and Strakhova, 2020; Salisu and Ayagi, 2024). As a result of constant corporate scandals and fraud cases, regulatory agencies devised rules of corporate governance to regulate the activities and increase best practices in firms (Hasan et al., 2020; Sinebe and Akpomiemie, 2023). In light of this assertion, the audit committee of firms are expected to have a large degree of independence in order to have a reliable and dependable, unbiased audit and financial report. By assuring independence, experience, attentive oversight, effective communication, and a commitment to ongoing improvement, audit committees can considerably enhance the dependability and openness of financial reporting (Amahalu & Obi, 2020). This in turn enhances investors' trust, assures regulatory compliance and adds to the general stability and efficiency of financial markets.

2.5. Audit Committee Size (ACSIZE)

Audit committees attract directors who manage information risk or seek sensitive financial information to alleviate uncertainty. The chairman, who must be free from conflict of interest, acts as a representative of shareholders, allowing the rest of the committee to become soft or hidden insiders, as their members may be captured by management according to their interests. The audit committee size significantly impacts corporate governance, particularly in overseeing CEO compensation. Olabisi (2022) opined that larger committees can provide better monitoring, detecting and addressing complex financial issues with advantages such as enhanced oversight, diverse expertise, and reduced CEO power. They can also mitigate agency problems, ensuring CEO compensation aligns with firm performance and shareholder value. However, larger audit committees also face challenges in coordination, decision-making, and dilution of responsibility and incur higher costs in terms of compensation, training, and administrative expenses, aligning executive pay more closely with firm performance and shareholder interests (Hassan et al., 2022; Tijjani et al., 2023; Sinebe, 2023b). Studies by Agada et al. (2024) and Anthonio et al. (2024) have demonstrated that ACSize effects business disclosures and disclosure practices and that large audit committees enhances other sub-committees to monitor the external auditors within short and given time.

2.6. Firm Size (FSIZE)

Firm size is a crucial factor in corporate governance research, influencing audit committee attributes and CEO compensation. Firm size (FSIZE) is suggested as a determinant and explanatory factor for differences in CEO pay. FSIZE is the natural logarithm of total assets and is a proxy for a firm's overall level of operations. Research suggests that returns to the core business are important for growth and total return to stockholders. Efficiency in resource use is related to firm size, and FSIZE is often used as the efficiency criterion in a property-rights framework linking theory and evidence regarding CEO compensation. Larger firms are seen to have greater access to resources, enabling them to invest in innovative projects and capitalize on economies of scale (Podukhovich, 2023; Potapova, 2023). They also have greater organizational complexity, leading to increased complexity and governance challenges and have access to more specialized experts with greater independence, leading to higher-quality financial reporting and better governance (Adebayo et al., 2021; Sinebe, 2021). CEO compensation is subsequently influenced by firm size because CEOs of larger firms generally receive higher compensation, reflecting the greater responsibilities, complexities, and risks associated with managing larger organizations (Kurdyukov, 2023; Salawu et al., 2024). Generally, Performance-based pay is more likely to be incorporated in CEO compensation packages as aligning the interests of CEOs with shareholders improves governance mechanisms and compensation structures across different organizational contexts.

2.7. Conceptual Model of the Study

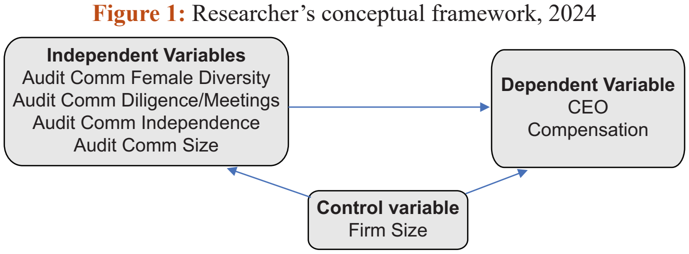
The conceptual model was designed to diagrammatically explain the link between the variables of audit committee attributes and CEO compensation (Figure 1).

2.8. Empirical Reviews

Okeke (2021) carried out a study using the ex post facto research design with secondary data from 2012 to 2019. Using a judgmental sampling technique, 15 manufacturing companies were chosen from those listed in Nigeria. A Pearson correlation matrix was used to assess the hypotheses after the gathered data were examined. The results showed a favourable correlation between the performance of Nigerian manufacturing companies and the size and frequency of audit committee meetings. On the other hand, there was a negative relationship between firm performance and audit committee independence. The study suggests that the focus of corporate governance discussions should be redirected from independence to the number and frequency of audit committee meetings to guarantee efficient governance supervision.

Olorede et al. (2022) studied the impact of CEO remuneration on the quality of financial reports in Nigerian listed businesses. The research involved 74 enterprises from the Nigerian Exchange Group (NGX), and the CEO's overall remuneration was compared with the corporate governance index. The discretionary accruals from the modified Jones model and accruals from Dechow and Dichev were used to measure financial reporting quality. The results showed that the interactive effect of executive compensation

Figure 1: Researcher's conceptual framework, 2024



and corporate governance had a significant and unfavourable effect on discretionary accruals, indicating a positive correlation with reporting quality. This highlights the importance of corporate governance in regulating managerial activities and preventing opportunistic behaviour in emerging economies like Nigeria.

Ukavwe and Jeroh (2024) study analysed significant CEO qualities and their influence on the value of quoted using secondary data from the Nigerian Exchange as at December 31st, 2021. Tobins' Q was employed as the proxy for the dependent variable (firm value), whereas the independent variable (CEO qualities) was quantified using CEO gender, CEO nationality, CEO tenure and CEO ownership and a moderating variable as Economic value added. The variables were however submitted to diagnostic tests (unit roots, multicollinearity, heteroscedasticity and Hausman tests respectively). The aggregate results demonstrated that CEO qualities (gender, nationality, tenure and ownership) significantly affect the value of quoted enterprises in Nigeria. This study thus suggests to corporate boards and relevant stakeholders to pay particular attention to these essential traits of CEO notably with respect to decisions relating to the recruitment, replacement and tenure consideration of CEOs.

In their study, Ekokotu et al. (2024) investigated the impact of Directors Compensation and Corporate Attributes on the performance of organisations between 2012 and 2021. The regression results indicate a negative correlation between Director Compensation and firm performance. The size of a firm was found to have a negative correlation with its performance, but the value of a firm had a positive and significant influence on its success. Additionally, it was observed that leverage had a negative correlation with firm performance. The study recommends that Nigerian firms should strategically overhaul their management systems by optimising financial structures through balanced leverage and prudent debt management. This would promote accountability and efficient management of resources, while also aligning individual interests with the general objectives of the firms.

Emuesiri and Frank (2024) study analysed the extent to which board qualities of quoted firms. The study utilised an ex-post facto research design and secondary data spanning from 2010 to 2021. The data collected were examined using descriptive and inferential statistical methods. The findings of the study revealed that board size and firms' size have significant influence on directors' remuneration of listed banks in Nigeria, while board independence, board gender diversity and directors' ownership structure recorded insignificant relationship with directors' remuneration of listed banks in Nigeria. The report consequently proposes that given the major impact of board size and firm size on directors' remuneration, banks should consider customising their board structure to find a balance between variety of knowledge and effective decision making. Board should avoid excessive size that can lead to inefficiencies and instead focus on assuring participation of pertinent skills set necessary for effective governance.

3. RESEARCH METHODOLOGY

The ex-post facto research design was used in the study which ensures that estimations from the sample are free from bias.

A simple random sampling technique was used to select 53 non-financial listed firms quoted in the Nigerian Exchange Group which were obtained during a 10-year period, from 2013 to 2022 and served as the study sample. The study also presents descriptive statistics information and the correlation matrix and other tests to validity of data collected. Nonetheless, it should be mentioned that as of December 31, 2021, there were 107 listed companies in the non-financial services industry.

3.1. Research Hypotheses

Ho_1: Audit committee gender diversity has no statistically linear relationship with CEO compensation.

Ho_2: The frequency of audit committee meetings has no statistically linear relationship with CEO compensation.

Ho_3: Audit committee independence has no statistically linear relationship with CEO compensation.

$H0_4$: The size of the audit committee has no statistically linear relationship with CEO compensation.

3.2. Model Specification

The following panel data model will be estimated as follows;

$$CEOCOMP = f(AUDFED, ACDIME, ACINDP, ACSIZE, FSIZE) \quad (i)$$

$$CEOCOMP_{it} = \alpha_0 + \alpha_1 AUDFED_{it} + \alpha_2 ACDIME_{it} + \alpha_3 ACINDP_{it} + \alpha_4 ACSIZE_{it} + \alpha_5 FSIZE_{it} + U_{it} \quad (ii)$$

I = Cross section;

t = Firm time;

a_0= intercept;

$\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5$ = coefficients;

μ_{it} = Error term.

4. MEASUREMENT OF VARIABLES AND ANALYSIS

Table 1 presents the summary and operationalization of the research variables.

Table 2 provides explanation for the dataset for the six variables: CEOCOMP, AUDFED, ACDIME, ACINDP, ACSIZE, and FSIZE, and their respective summary statistics for the 530 observations in the dataset. The statistics presented are the mean, minimum, maximum, median (p50), standard deviation (SD), and count (N). It shows that CEOCOMP has 1.319415, 0, 41.8, 0.465 and 3.288527 respectively. AUDFED has a statistic of 12.12714, 0, 71.4286, 0 and 14.59811 respectively. Also, ACDIME has 3.907547, 2, 9, 4 and 0.7951529 respectively. ACINDP shows a statistic of 47.24386, 16.6667, 100, 50 and 10.86304. Furthermore, ACSIZE has 5.671698, 4, 9, 6 and 0.85959, While, FSIZE has 6.952394, 5.0927, 9.1811, 6.89825 and 0.7635113 respectively. The data indicates that average CEO compensation is 1.319415 with a median much lower at 0.465, indicating a right-skewed distribution. It further indicates that the mean frequency of audit committee meetings is 12.12714, but with a median of 0, which indicates that many companies in the dataset do not have frequent meetings. The average size of audit committees is approximately 3.91, with a median of 4, showing that most committees are around this size of 4. It further explains that on average, 47.24% of audit committee members are independent, with a median of 50%. The distribution is relatively normal with some variability, as indicated by the standard deviation. It also shows that Firm size has an average of 6.952394 with a median close to the mean, at 6.89825. The standard deviation suggests moderate variability in firm size. This indicates diverse practices among firms regarding these aspects. Conversely, audit committee size and firm size are relatively consistent across the dataset, suggesting more standardization in these areas.

The correlation matrix in table 3, provides insights into the relationships between the six variables: CEOCOMP, AUDFED, ACDIME, ACINDP, ACSIZE and FSIZE. It indicates that CEO compensation has a weak negative correlation with most variables, except for audit committee size (ACSIZE), which shows a moderate negative correlation. This suggests that as the audit committee size increases, CEO compensation tends to decrease. It further indicates that AUDFED has a positive correlation of 0.1298 with ACDIME, a positive correlation of 0.0229 with ACINDP and a positive correlation of 0.1274 with ACSIZE. Additionally, it shows that ACDIME has a positive correlation with ACINDP with a display of 0.1637 and a positive correlation of 0.1491 with ACSIZE, while ACINDP displays a positive correlation of 0.1184 with ACSIZE. From our analysis, the moderate negative correlation between CEO compensation and audit committee size suggests that larger audit committees might exert downward pressure on CEO compensation, potentially due to increased oversight. The positive correlations among ACDIME, ACINDP, ACSIZE, and FSIZE suggest that larger firms tend to have larger audit committees with more independent directors. However, these relationships are not strong, implying that other factors not considered in this study might play a significant role.

Variance inflation factor (VIF) as seen in table 4; is a measure used to detect the presence of multicollinearity in a regression model. Multicollinearity occurs when two or more independent variables in the model are highly correlated, leading to unreliable and unstable estimates of regression coefficients. It also quantifies how much the variance of an estimated regression coefficient increases due to collinearity. The VIF values for the variables AUDFED, ACDIME, ACINDP, ACSIZE, and FSIZE are all very low, with none exceeding 1.08. The tolerance values (1/VIF) are all close to 1, further supporting the conclusion that multicollinearity is not a concern in this dataset.

The Breusch and Pagan Lagrangian multiplier test for random effects obtained in table 5, assesses whether there is significant variation in the individual model as it accounts for unobserved heterogeneity across "fiscal year" without imposing stringent assumptions on group-specific effects. The Hausman test compares the coefficients estimated from the fixed effects (FE) and Random effects (RE) models to determine which assumptions are valid or preferred. Consequently, the Hausman test provides valuable insights into model specification and choice, highlighting the robustness of the regression results and the suitability of FE or RE models. Based on our results, we lean towards the more efficient

Table 1: Summary and operationalization of the research variables

	Variables	Type of variable	Labels	Measures	A priori expectation
1.	CEO compensation	Dependent	CEOCOMP	Measured as CEO remuneration divided by total revenue (%)	Nil
2.	Audit committee female diversity	Independent	AUDFED	Measured as the number of female audit committee members divided by audit committee members size (%)	Positive
3.	Audit committee diligence/Meetings	Independent	ACDIME	Measured as number of meetings held by the audit committee members in a year	Positive
4.	Audit committee independence	Independent	ACINDP	Measured as the number of non-directors and non-executive directors in the audit committee divided by audit committee members size (%)	Positive
5.	Audit committee size	Independent	ACSIZE	Measured as is the total directors and non-directors in the audit committee	Positive
6.	Firm size	Control	FSIZE	Measured as natural log of total asset	Positive

Source: self-designed tables computation based on the study data, 2024©

Table 2: Summary of descriptive statistics

STATS	CEOCOMP	AUDFED	ACDIME	ACINDP	ACSIZE	FSIZE
MEAN	1.319415	12.12714	3.907547	47.24386	5.671698	6.952394
MIN	0	0	2	16.6667	4	5.0927
MAX	41.8	71.4286	9	100	9	9.1811
P50	0.465	0	4	50	6	6.89825
SD	3.288527	14.59811	0.7951529	10.86304	0.85959	0.7635113
n	530	530	530	530	530	530

Source: Self-designed tables computation based on the study data, 2024

Table 3: Summary output for correlation Metrix analysis

Variable	CEOCOMP	AUDFED	ACDIME	ACINDP	ACSIZE	FSIZE
CEOCOMP	1.0000					
AUDFED	−0.0595	1.0000				
ACDIME	−0.0505	0.1298	1.0000			
ACINDP	−0.0279	0.0229	0.1637	1.0000		
ACSIZE	−0.2608	0.1274	0.1491	0.1184	1.0000	
FSIZE	−0.0330	0.1519	0.1610	0.0644	0.1271	1.0000

Source: Self-designed tables computation based on the study data, 2024

Table 4: Variance inflation factor (VIF) test result

Variable	VIF	1/VIF
AUDFED	1.05	0.956208
ACDIME	1.08	0.929042
ACINDP	1.04	0.963187
ACSIZE	1.05	0.949261
FSIZE	1.06	0.947608
Mean VIF	1.05	

Source: Self-designed tables computation based on the study data, 2024

Table 5: Breusch and Pagan Lagrangian multiplier test

Breusch and Pagan Lagrangian multiplier test for fixed effect	
Decision rule	If P-value is statistically significant, then reject Ho and accept HA
Result	Chi^2 (01) = 0.00; Prob>Chi^2=1.0000
Hausman test	
Decision rule	If P-value is statistically significant, then reject Ho and accept HA
Result	Wald Chi^2 (5) = 3.08; Prob>Chi^2=0.6878

Source: Self-designed tables computation based on the study data, 2024

RE model, which accounts for unobserved heterogeneity across groups (fiscal year). It assumes that individual group effects (u[fiscal year]) are normally distributed with a mean of zero and constant variance (Var[u]).

Table 6: Summary of Random-effects GLS regression result

TOBINSQ	COEF.	STD. ERR.	z	P>|z|
AUDFED	−0.0059284	0.0097114	−0.61	0.542
ACDIME	−0.0425553	0.1808773	−0.24	0.814
ACINDP	0.0013674	0.0130031	0.11	0.916
ACSIZE	−0.9833685	0.1655267	−5.94	0.000
FSIZE	0.0215594	0.1865187	0.12	0.908
_CONS	6.920473	1.590847	4.35	0.000
n				530
Wald Chi^2 (5)				38.73
R^2 (Overall)				0.0688
Prob>Chi^2				0.0000

Source: Self-designed tables computation based on the study data, 2024

The regression analysis evidenced in table 6, aims to explore the relationship between CEO compensation (CEOCOMP) and the other variables (AUDFED, ACDIME, ACINDP, ACSIZE and FSIZE). The R-squared 0.0688 indicates that approximately 6.88% of the variation in CEO compensation (CEOCOMP) can be explained by the combined effect of the independent variables in the model with an adjusted R-squared of 0.0688. The Significance of the Model (Wald Chi^2 = 38.73; Prob. > Chi^2 = 0.0000) explains the overall significance of the regression model. It tells us that with a very low P-value (0.0000), we reject the null hypothesis that all regression coefficients are zero, generally indicating that the model is statistically significant.

5. DISCUSSION OF FINDINGS

Based on our analysis of the coefficients and their interpretations, we observe that AUDFED displayed a Coefficient of −0.0059284 with a P = 0.542 which suggests that there is no significant linear relationship between audit committee female diversity (AUDFED) and CEO compensation (CEOCOMP) as the P > 0.05, this disagrees with the study of Kolawole et al. (2023), Chijoke-Mgbame et al. (2020), Tijjani et al. (2023), Agada et al. (2024). Also, ACDIME displayed a Coefficient of −0.0425553 and a corresponding P = 0.814, which similarly indicate that there is no significant linear relationship between audit committee size (ACDIME) and CEO compensation (CEOCOMP) as the P = 0.814 is high, this agrees with the study of Sulaiman et al. (2023) but disagrees with the study of Hassan et al. (2022), Kolawole et al. (2023). Furthermore, ACINDP displays a Coefficient of 0.0013674 with a corresponding P = 0.916, which indicates that audit committee (ACINDP) has no significant linear relationship with CEO compensation (CEOCOMP), given the high P = 0.916. This agrees with the study of Hassan et al. (2022), Kolawole et al. (2023). But disagrees with the study of Ebere et al. (2022).

Also, ACSIZE has a Coefficient of −0.9833685 with a corresponding P = 0.000. This result indicates that there is a statistically significant negative relationship between audit committee size rating (ACSIZE) and CEO compensation (CEOCOMP), this means that as ACSIZE increases, CEO compensation (CEOCOMP) tends to decrease, with a P = 0.000, this suggests that larger audit committees might influence lower CEO compensation, possibly due to increased oversight or governance structure. This result agrees with the study of Iheyen (2021), Kolawole et al. (2023), but disagrees with the study of Agada and Lazarus (2024). We also observe that our intercept term (_cons) is 6.920473, indicates that when all the independent variables are zero, the estimated CEO compensation (CEOCOMP) is approximately 6.92. The overall low R-squared value (0.0688) indicates that the model explains only a small portion of the variability in CEO compensation, suggesting that other factors beyond the ones included in the model might also influence CEO compensation levels. We suggest therefore, that further investigation with additional variables or different modelling approaches could provide deeper insights into the determinants of CEO compensation.

5.1. Summary of Findings

i. AUDFED does not have significant linear relationship with CEOCOMP
ii. AUDIME does not have significant linear relationship with CEOCOMP
iii. ACINDP does not have significant linear relationship with CEOCOMP
iv. ACSIZE has a statistically significant negative relationship with CEOCOMP.

5.2. Conclusion and Further Directions of Research

The literature underscores the intricate relationship between audit quality and CEO remuneration. High-quality audits contribute to more accurate financial reporting, which in turn affects the structuring of performance-based pay for CEOs while Firm size is observed to serve as a crucial control variable in this dynamic, influencing both audit quality and remuneration practices. Based on the findings from the study, we recommendation the following which aims to leverage the insights gained from the regression analysis to improve corporate governance and align CEO compensation with firm performance.

1. Regulatory bodies should consider enforcing the guidelines that encourage or require larger audit committees, as the study indicates a statistically significant negative relationship between audit committee size and CEO compensation.
2. While the study found no significant relationship between audit committee independence (ACINDP) and CEO compensation, it remains essential to ensure that audit committees are composed of independent members with relevant financial expertise to maintain high governance standards.
3. Enhanced disclosure requirements for CEO compensation can help stakeholders understand the determinants of executive pay and the role of audit committees in overseeing compensation practices.
4. Firms should design CEO compensation packages that are closely aligned with firm performance metrics, ensuring that pay reflects the company's success and the CEO's contribution to that success.

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