

Newsletter

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Welcome to our latest Edition of the Kreston Pedabo Newsletter!

This month, we examine a key governance tool that turns risk insight into proactive advantage: the whistleblowing system.

In our feature, **“Whistleblowing Systems as a Strategic Safeguard: Strengthening Governance to Prevent Crises”** we explore how effective reporting channels act as critical early warnings within an ERM framework. Learn how leading organisations move beyond compliance, using these systems to fortify integrity, preempt crises, and strengthen resilience within the local regulatory landscape.



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Whistleblowing Systems as a Strategic Safeguard: Strengthening Governance to Prevent Crises

In an increasingly transparent and regulated global economy, governance failures rarely emerge without warning. In most major corporate crises of the past, early indicators existed, but controls were missed, complaints overlooked, anomalies ignored, and organisations simply failed to respond with urgency.

Whistleblowing systems, as part of governance embedded in a broader **Enterprise Risk Management Framework**, when effectively designed and supported by leadership, function as structured early warning mechanisms. They allow organisations to identify and address misconduct before it metastasises into



regulatory breaches, reputational crises, or financial collapse.

Whistleblowing broadly refers to the disclosure by organisational members of illegal, unethical, or illegitimate practices to individuals or entities capable of effecting corrective action.¹ While historically associated with fraud reporting, the scope has expanded to include harassment, discrimination, environmental violations, procurement manipulation, data protection breaches, conflicts of interest, and other governance failures. The modern whistleblowing framework is therefore not simply a fraud hotline; it is an institutional integrity channel.

Empirical evidence reinforces its importance. According to the Association of Certified Fraud Examiners (ACFE), tips remain the most common initial detection method for occupational fraud, accounting for a higher percentage of discoveries than internal audits, management reviews, or external audits combined.² Organisations with formal reporting mechanisms experience lower median losses and detect misconduct more quickly than those without structured channels. These findings underscore a practical reality: internal stakeholders often see risks first.

From a governance standpoint, whistleblowing

mechanisms reinforce the foundational principles of transparency, accountability, and oversight articulated in global corporate governance frameworks. The G20/OECD Principles of Corporate Governance emphasise the need for boards to ensure effective monitoring systems, including safe channels for reporting unethical behaviour.³ Such mechanisms provide directors and audit committees with visibility into operational risks that may otherwise remain obscured by hierarchical barriers.

The regulatory environment further reflects the institutionalisation of whistleblower protections; the Sarbanes–Oxley Act of 2002 mandates that publicly listed companies in the United States establish procedures for confidential and anonymous reporting of concerns regarding accounting or auditing matters.⁴ The Dodd–Frank Act later strengthened incentives and protections for whistleblowers reporting securities violations.⁵ Similarly, the European Union Directive (EU) 2019/1937 requires qualifying organisations to implement secure reporting channels and prohibits retaliation against reporting persons.⁶ These frameworks are particularly relevant for multinational companies headquartered within those jurisdictions or operating under their regulatory oversight.

¹ Near, J. P., & Miceli, M. P. (1985). Organisational dissidence: The case of whistle-blowing. *Journal of Business Ethics*, 4(1), 1–16

² Association of Certified Fraud Examiners (ACFE). (2022). Report to the Nations: Occupational Fraud 2022 Global Study on Occupational Fraud and Abuse.

³ Organisation for Economic Co-operation and Development (OECD). (2015). G20/OECD Principles of Corporate Governance

⁴ United States Congress. (2002). Sarbanes–Oxley Act of 2002.

⁵ United States Congress. (2010). Dodd–Frank Wall Street Reform and Consumer Protection Act.

⁶ European Parliament and Council of the European Union. (2019). Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law.

However, within the Nigerian context, governance expectations are guided by local frameworks. The Nigerian Code of Corporate Governance 2018 (NCCG), issued by the Financial Reporting Council of Nigeria (FRC), requires organisations to establish whistleblowing mechanisms that enable stakeholders to report illegal or unethical behaviour without fear of reprisal.⁷ The code places responsibility on the board to ensure the existence of an effective whistleblowing framework and to monitor its implementation.

For regulated entities such as financial institutions, governance expectations are further reinforced through sector-specific supervisory guidelines issued by the Central Bank of Nigeria (CBN), which emphasises internal control systems, risk management oversight, and reporting mechanisms.⁸ In the public sector, the Public Procurement Act 2007 provides safeguards against procurement irregularities and promotes transparency in public spending.⁹ Additionally, the Federal Government's Whistleblowing Policy introduced by the Ministry of Finance established a formal channel for reporting financial misconduct and has led to significant recoveries of misappropriated funds.¹⁰

Collectively, these local and international instruments signal a clear reality: whistleblowing is no longer discretionary. It is embedded within modern governance architecture and expected as part of institutional accountability.

Beyond regulatory compliance, the strategic value of whistleblowing systems lies in risk containment. High-profile corporate collapses such as Enron demonstrated that internal concerns were raised but insufficiently acted upon, revealing systemic weaknesses in governance oversight. When organisations fail to provide safe and credible internal channels, employees may either remain silent or escalate concerns externally, to regulators, media outlets, or civil society, magnifying reputational exposure.

Whistleblowing systems therefore serve as governance shock absorbers. By surfacing issues internally, organisations retain the opportunity to investigate, remediate, and self-report where necessary. Early intervention often reduces regulatory penalties and demonstrates good faith to oversight bodies.



⁷ Financial Reporting Council of Nigeria. (2018). Nigerian Code of Corporate Governance 2018.

⁸ Central Bank of Nigeria. (various guidelines). Code of Corporate Governance for Banks and Discount Houses.

⁹ Federal Republic of Nigeria. (2007). Public Procurement Act 2007.

¹⁰ Federal Ministry of Finance, Budget and National Planning. (2016). Whistleblowing Policy of the Federal Government of Nigeria.

Kreston Pedabo Whistleblowing Governance Framework

To move whistleblowing from policy intent to real-world effectiveness, organisations need more than a hotline. They need a governance-ready framework that connects board oversight, policy architecture, secure reporting channels, credible investigations, and continuous improvement.

At Kreston Pedabo, we operationalise whistleblowing through a structured, end-to-end framework, ARDEE, that is both implementable and scalable. It is designed to work for regulated entities (such as financial institutions), multi-sectoral corporate organisations, and public sector-facing environments where procurement and fraud risks are elevated.

The framework runs across five linked pillars:

1

Assess: Governance and Gap Diagnostics

This stage establishes the baseline. We conduct stakeholder interviews and workshops to understand culture, risk exposure, existing reporting practices, and the current control environment. We review any existing whistleblowing policy and procedures to identify gaps against leading practice and regulatory expectations.



2

Review: Policy and Control Alignment

We benchmark the organisation's current approach against recognised standards and applicable governance expectations, then produce a clear roadmap of improvements. This includes governance ownership (board and committee oversight), escalation pathways, investigation independence, confidentiality safeguards, and anti-retaliation provisions.



3

Design: Fit-for-purpose Whistleblowing Architecture

Here, we design (or redesign) the whistleblowing policy and operating model to be usable in practice. We define the scope of reportable matters, reporting channels, case triage and categorisation rules, investigation workflows, evidence handling, documentation standards, reporting formats, and board dashboards. The policy is structured to reflect best practice guidance (including ISO 37002) while remaining tailored to organisational realities.



4

Execute: Platform, Rollout, and Adoption

A whistleblowing framework succeeds or fails on trust and accessibility. We support the setup of secure reporting channels (for example, online portal, hotline, dedicated email, and other reporting options), with anonymity where required, secure data handling, and clear service-level timelines for triage and case closure. We also conduct sensitisation and training sessions so employees and stakeholders understand how to report, what protections exist, and what to expect after a report is made.



5

Enhance: Monitoring, Reporting, and Continual Improvement

Whistleblowing should generate governance intelligence, not just case files. We implement periodic reviews and performance monitoring, including case trends, root-cause insights, closure timelines, substantiation rates, and control improvement actions. This creates a continual improvement loop so the organisation strengthens prevention controls, not just detection capability.



In practice, the five pillars will operate as a continuous cycle:



This embeds whistleblowing into enterprise risk management and governance oversight, ensuring concerns are surfaced early, managed credibly, and converted into control and culture improvements before issues escalate.

What makes a Whistleblowing System Effective?

An effective whistleblowing framework typically incorporates several core elements. First, there must be multiple reporting channels, including anonymous options, to accommodate varying comfort levels among reporters.¹¹ Second, confidentiality and non-retaliation protections must be explicit and enforced. Third, there should be a clearly defined investigation process, with independence from implicated management where necessary. Finally, periodic monitoring and reporting to the board or audit committee ensure

oversight at the highest level of governance.

Tone at the top remains critical. Studies in organisational ethics indicate that employees are more likely to report misconduct when they perceive leadership as ethical and responsive.¹² Conversely, cultures characterised by fear or indifference suppress reporting, allowing risks to compound. Therefore, whistleblowing systems must be supported by communication campaigns, training initiatives, and leadership

¹¹ International Organisation for Standardisation (ISO). (2021). ISO 37002:2021 Whistleblowing management systems — Guidelines.

¹² Treviño, L. K., & Brown, M. E. (2004). Managing to be ethical: Debunking five business ethics myths. *Academy of Management Executive*, 18(2), 69–81.

endorsement to foster trust and legitimacy.

In emerging markets, where institutional enforcement may vary, internal whistleblowing mechanisms play an even more strategic role. They provide organisations with the opportunity to address risks proactively, rather than reactively responding to regulatory sanctions or public exposure. For multinational firms operating across jurisdictions, harmonised whistleblowing frameworks also ensure consistency in governance standards, regardless of local legal variations.

Technology has further enhanced the effectiveness of whistleblowing systems. Secure digital platforms allow encrypted submissions, case tracking, data analytics, and trend monitoring. This not only improves confidentiality but also enables organisations to identify systemic issues, such as recurring control weaknesses or problematic departments, before they escalate into broader failures.¹³

However, the existence of a whistleblowing policy alone is insufficient. Organisations must regularly test their systems, conduct independent reviews, and assess employee awareness and confidence levels. Metrics such as reporting frequency, case resolution timelines, and substantiation rates can

provide insight into system effectiveness. A low reporting rate, contrary to intuition, may signal fear or lack of trust rather than an absence of misconduct.

Ultimately, whistleblowing systems serve as governance shock absorbers. They intercept risks at their earliest stages, preserve organisational value, and reinforce ethical standards. Rather than viewing whistleblowing as a defensive measure against wrongdoing, forward-looking organisations treat it as a strategic governance asset. By strengthening internal reporting structures, boards and management can ensure that issues are surfaced, investigated, and resolved before they escalate into crises that threaten financial stability, regulatory standing, and public trust.

In an era defined by heightened scrutiny, rapid information flows, and stakeholder activism, proactive governance is indispensable. Whistleblowing systems, when embedded thoughtfully and supported by ethical leadership, provide organisations with the clarity and courage to confront problems early. In doing so, they transform potential vulnerabilities into opportunities for institutional strengthening.



¹³ Brown, A. J., et al. (2014). Whistleblowing: New Perspectives and New Directions. Edward Elgar Publishing.

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