



# Whistleblowing An Effective Tool in Fraud Risk Management

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# What is Whistleblowing?

*“Whistleblowing” is the exposure of any suspected or actual activity, carried out or being carried out by an individual or group of individuals, that is deemed or suspected to be fraudulent or is contrary to policies, rules, regulations and/or laws.*



## Regulatory Requirements

Principle 19 of the Nigerian Code of Corporate Governance (NCCG) 2018 requires the Board of every organisation to establish a whistleblowing mechanism, which should encourage employees and other stakeholders to bring unethical conduct and violation of laws and regulations to the attention of an internal and/or external authority. This is with a view to taking action to verify the allegation, and if confirmed, take remedial action(s) to correct any harm done and/or apply appropriate sanction(s).

The NCCG 2018 also recommends that the Boards of organisations should implement a reliable and accessible whistleblowing mechanism that guarantees the anonymity of the whistleblowers and treats all disclosures resulting from whistleblowing system in a confidential manner.

In addition to the regulatory requirements, at the African Anti-corruption Day held in Abuja, Nigeria in July 2024, the Attorney General of the Federation (AGF), along with the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC), emphasized that an effective whistleblowing initiative is one of the ways to tackle corruption and called for the urgent passage of a robust whistleblower protection law in Nigeria.

The Whistleblower Protection Bill (“The Bill”) is a proposed legislation designed to protect individuals who report cases of corruption, fraud, and other unethical conduct from retaliation, harassment and harm. The Bill seeks to create an environment where whistleblowers can freely report illicit activities without fear of negative consequences.

The Bill, which was first introduced to the 8th National Assembly in 2017, was passed for third reading in 2019.

In 2022, the Bill was approved by the Federal Economic Council. However, the 9th National Assembly was unable to conclude legislative work on the bill. In 2023, the Bill was sent to the president for presentation to the 10th National Assembly where it is currently.



# Benefits of an Effective Whistleblowing Mechanism

A well-run whistleblowing mechanism will provide the following benefits to an organisation:

## 1 Early Detection and Prevention of Fraud

Whistleblowing mechanism provide a real-time reporting mechanism that can detect fraud or misconduct before it happens. This is crucial in preventing possible financial loss and reducing the overall negative impact on the organisation.

## 2 Enhances Internal Controls

Whistleblowing contributes significantly to enhancing internal controls, by providing detailed insights into potential control weaknesses and operational inefficiencies.

## 3 Provides Unique Insight

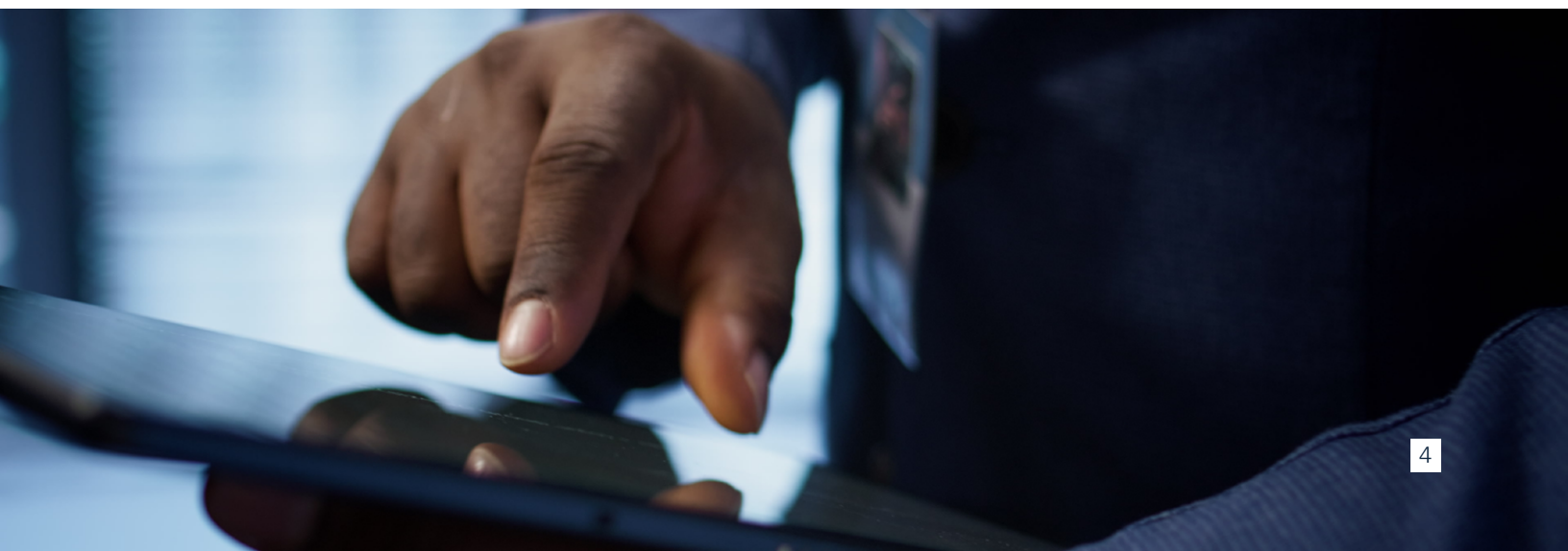
An effective whistleblowing mechanism provides unique insights into the root causes of issues, trends, and systemic problems within the workplace. Whistleblowers, often being close to issues, can highlight recurring patterns, operational weaknesses, and emerging trends that contribute to these issues.

## 4 Deterrence Effect

Whistleblowing serves as a powerful deterrent against fraudulent activities within organisations. The presence of a robust whistleblowing mechanism signals to the potential fraudsters that unethical behavior is likely to be detected, investigated, and sanctioned.

## 5 Strong Tone at the Top

An effective whistleblowing mechanism demonstrates that the leadership of the organisation is committed to building a good corporate ethical culture.



# Effective Whistleblowing Mechanism: Inhibitors and Mitigating Strategies

Despite the critical role that whistleblowing plays in preventing and detecting fraud and misconduct, several factors inhibit its effectiveness. However, there are mitigating strategies to counter these inhibitors. These are:

## Lack of Trust in the System:

Strategies for building confidence.

According to the guidelines of ISO 37002, greater number of employees in the organisation are more likely to report wrongdoing when they trust that the organisation will act on it in good faith. To address the matter of lack of trust, organisations can implement the following strategies to build and maintain trust in the system:

- Strong tone at the top by demonstrating a zero tolerance to fraud and unethical conduct.
- Provide multiple reporting channels that are easily accessible, and at the same time, guarantee anonymity.
- Conduct impartial and consistent investigations of the whistleblowing reports, regardless of the position of the individual(s) involved.
- Provide whistleblowers with updates on the status of their reports.

## Fear of Retaliation:

Effective strategies to protect whistleblowers.

Feedback from KPMG facilitated whistleblowing training sessions indicate that a substantial number of employees are not encouraged to report observed wrongdoing for fear of retaliation and/or victimisation. The retaliation or victimisation may include non-promotion, not considered for training or secondment opportunities, loss of jobs, etc. The following mitigating strategies can help employees overcome the fear of retaliation/victimisation if implemented by the organisation:

- Anti-retaliation policy, clearly communicating the policy and the consequences of its violation.
- Anonymous reporting channels such as hotlines, emails, online applications which allow whistleblowers report issues without revealing their identities.

- Outsourcing the hosting of whistleblowing channels to an independent professional services provider.

## Lack of Confidentiality:

Strengthening Confidentiality in the whistleblowing process.

Confidentiality is a cornerstone of effective whistleblowing system. When potential whistleblowers suspect that reported issues will not be treated confidentially, they are less likely to report. To address the lack of confidentiality, organisations can implement the following strategies:

- Designing and implementing a policy that clearly outlines how reports must be treated in a confidential manner.
- Outsourcing the hosting of whistleblowing channels to an independent professional services provider to guarantee confidentiality of reports and anonymity of whistleblowers.

## Lack of Awareness:

Strategies to inform and educate employees about whistleblowing.

Employees and other stakeholders may not utilise the whistleblowing channels if they are not adequately informed or not informed at all about the reporting mechanism available within the organisation. To address the lack of awareness, organisations can implement the following strategies:

- Periodic training sessions on the whistleblowing program.
- Ongoing and effective communication through pop-ups, stickers, and banners to foster a culture of awareness.
- Providing feedback on outcome of reported cases.

# Conclusion

Whistleblowing should not be viewed as a reactive measure; but also a proactive strategy for an effective fraud risk management.

Organizations that prioritize an effective whistleblowing mechanism are not only more successful in mitigating fraud risks, but are also cultivating trust among employees and stakeholders.

Therefore, organizations should seek to enhance their whistleblowing mechanisms, by ensuring that they are simple, accessible, confidential and anonymous.



## How can KPMG help?

### Hosting your Whistleblowing System:

KPMG Ethics Line is an **independent** channel for “Whistleblowing” that enables stakeholders and third parties to report incidents of misconduct within or affecting their organisations, in a **confidential** and **anonymous** manner. KPMG Ethics Line offers the following reporting channels via a mobile app:

- Toll-free lines
- Whistleblowing Application (Google playstore and iOS store)
- Dedicated email address
- Weblink

### Fraud Risk Management:

KPMG’s Fraud Risk Management Framework is aimed at helping clients prevent, detect, and respond to risks of fraud and misconduct. This is achieved by working with our clients to evaluate – ethic’s compliance programs and anti-fraud controls, among others, with a view

view to designing and implementing effective anti-fraud programs.

### Investigation:

KPMG professionals, through independent investigations provide factual findings on any allegations and also assist to articulate improvement opportunities, as well as proffer recommendations to enhance organizational processes, mitigate risks, and strengthen internal controls.



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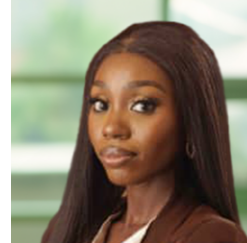


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