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**SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION**  
**Senator Steve Padilla**  
**Chair**  
**2025 - 2026 Regular**

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| <b>Bill No:</b>    | AB 1405             | <b>Hearing Date:</b> | 7/8/2025 |
| <b>Author:</b>     | Bauer-Kahan, et al. |                      |          |
| <b>Version:</b>    | 4/3/2025 Amended    |                      |          |
| <b>Urgency:</b>    | No                  | <b>Fiscal:</b>       | Yes      |
| <b>Consultant:</b> | Brian Duke          |                      |          |

**SUBJECT:** Artificial intelligence: auditors: enrollment

**DIGEST:** This bill establishes an enrollment process for auditors of artificial intelligence (AI) systems or models through the Government Operations Agency (GovOps) and sets certain minimum standards for AI auditing pursuant to any state statute, as specified.

**ANALYSIS:**

Existing law:

- 1) Establishes the California Department of Technology (CDT), within GovOps, and requires the department to conduct, in coordination with other interagency bodies as it deems appropriate, a comprehensive inventory of all high-risk automated decision systems (ADS) that have been proposed for use, development, or procurement by, or are being used, developed, or procured by, any state agency.
- 2) Defines “automated decision system” to mean a computational process derived from machine learning, statistical modeling, data analytics, or AI that issues simplified output, including a score, classification, or recommendation, that is used to assist or replace human discretionary decision-making and materially impacts natural persons.
- 3) Defines “artificial intelligence” to mean an engineered or machine-based system that varies in its level of autonomy and that can, for explicit or implicit objectives, infer from the input it receives how to generate outputs that can influence physical or virtual environments.

This bill:

- 1) Creates the AI Auditor's Enrollment Fund, within the State Treasury, to be administered by GovOps and requires any deposited funds to be available for expenditure by GovOps, upon appropriation by the Legislature, to administer this bill.
- 2) Requires GovOps, by January 1, 2027, to do all of the following:
  - a) Establish a mechanism on the agency's internet website allowing AI auditors to enroll with the agency, as specified.
  - b) Fix enrollment fees at an amount not exceeding the reasonable costs of administering this chapter.
  - c) Establish a mechanism on GovOps' internet website allowing natural persons to report misconduct by an enrolled AI auditor.
- 3) Requires GovOps, beginning January 1, 2027, to do all of the following:
  - a) Publish any information provided by an enrolled AI auditor, as specified, in a publicly accessible format on GovOps' internet website.
  - b) Retain any report submitted using the mechanism established, as specified, for as long as the enrolled AI auditor remains enrolled, plus 10 years.
  - c) Share reports submitted using the mechanism established, as specified, with other state agencies as necessary for enforcement purposes.
- 4) Requires an AI auditor, beginning January 1, 2027, and prior to initially conducting a covered audit, to do all of the following:
  - a) Enroll with the agency using the established mechanism, as specified.
  - b) Provide to GovOps all of the following information:
    - i) The name of the auditor.
    - ii) All of the following information:
      - (1) The primary physical address of the auditor, if the auditor has a physical address.
      - (2) The primary internet website of the auditor, if the auditor has an internet website.
      - (3) A telephone number enabling a natural person to communicate with the auditor.
      - (4) An email address enabling a natural person to communicate with the auditor.

- iii) The types of AI systems or models that the auditor is enrolling to audit.
  - iv) Any relevant certifications or accreditations and the identities of the certifying or accrediting entities.
  - v) A written description of the auditor and the services they provide, not to exceed 200 words in length.
  - vi) A standard operating procedure (SOP) that describes the auditor's procedures in sufficient detail to enable a third party to assess whether audits are conducted according to generally accepted industry best practices.
- 5) Prohibits an AI auditor from knowingly making a material misrepresentation in an audit report prepared pursuant to this bill.
- 6) Requires an enrolled AI auditor to retain any documentation that is provided to an auditee pursuant to this bill, or that is necessary to demonstrate the basis of the result of a covered audit, for at least 10 years.
- 7) Prohibits an enrolled AI auditor from conducting a covered audit if it has a financial interest in the auditee other than financial compensation for performing an audit.
- 8) Prohibits an AI auditor from accepting employment with an auditee within 12 months of completing a covered audit, as specified.
- 9) Prohibits an AI auditor from conducting a covered audit if the auditee had employed the auditor during the 12-month period preceding an audit.
- 10) Authorizes an enrolled AI auditor to disclose confidential information concerning and auditee only if the auditee provides written authorization or if the disclosure is any of the following:
- a) Made in compliance with a subpoena or a summons enforceable by order of a court.
  - b) Reasonably necessary to maintain or defend the auditor in a legal proceeding initiated by the auditee.
  - c) Made in response to an official inquiring from a federal or state government regulatory agency.
  - d) Made to another enrolled AI auditor or person in connection with a proposed sale or merger of the auditor's professional practice, provided the parties enter into a written nondisclosure agreement with regard to all auditee information shared between the parties.
  - e) Made to either of the following:

- i) Another enrolled AI auditor to the extent necessary for purposes of professional consultation.
  - ii) Organizations that provide professional standards review and ethics or quality control peer review.
  - f) Specifically permitted by state or federal law.
- 11) Prohibits an enrolled auditor from doing either of the following:
- a) Prevent an employee from disclosing information to the Attorney General (AG) or the Labor Commissioner, or using the mechanism established, as specified, including through terms and conditions of employment or seeking to enforce terms and conditions of employment, if the employee has reasonable cause to believe the information indicates that the auditor is out of compliance with the requirements of this bill.
  - b) Retaliate against an employee for disclosing information pursuant to this bill, as specified.
- 12) Defines “artificial intelligence auditor” to mean a person, partnership, or corporation that assesses and AI system or model on behalf of a third party.
- 13) Defines “covered audit” to mean an audit conducted pursuant to any state statute that requires an audit of an AI system or model by an independent third party auditor.

## Background

*Author Statement.* According to the author’s office, “over the past decade, AI systems have become increasingly powerful and accessible. Just as financial audits improve transparency and mitigate risks in capital markets, independent third party audits play a critical role in ensuring that AI systems are developed and deployed responsibly. Well-structured audits can help identify risks, verify compliance with ethical and legal standards, and build public trust in AI technologies. AB 1405 establishes an enrollment process for AI auditors and sets minimum transparency, competency, and ethical standards for enrolled auditors.”

*Use of Independent Audits for Proper AI Oversight.* As noted in the Senate Committee on Judiciary’s analysis of this bill, the use of AI auditing can be a key tool in effectively assessing how AI systems and models are working and what their impacts are. Audits can ensure legal compliance and, when shared publicly, afford a measure of transparency. Mandatory audits create baseline standards across the industry, making it easier to compare different AI systems and ensuring minimum safety thresholds. This levels the playing field and prevents a “race to

the bottom” where competitive pressures lead companies to skimp on safety measures. Audit requirements create transparency that builds public confidence in AI systems, especially those used in critical domains like healthcare, criminal justice, or financial services. When people know systems have been independently verified, they are more likely to accept and appropriately use AI tools.

This accountability also provides recourse when things go wrong, as qualified auditors can provide concrete evidence for regulatory decisions and legal proceedings. They create a paper trail showing whether companies exercised reasonable care, which is crucial for determining liability when AI systems cause harm. Especially given the limited resources and expertise of state government in carrying out such audits, ensuring the availability of qualified independent auditors is crucial to the effectiveness of any auditing regime.

Last year, the National Telecommunications and Information Administration (NTIA) published an “Artificial Intelligence Accountability Policy Report.” One of its main recommendations focused on the utility of such independent auditing:

Independent AI audits and evaluations are central to any accountability structure. To help create clarity and utility around independent audits, we recommend that the government work with stakeholders to create basic guidelines for what an audit covers and how it is conducted – guidance that will undoubtedly have some general components and some domain-specific ones. This work would likely include the creation of auditor certifications and audit methodologies, as well as mechanisms for regulatory recognition of appropriate certifications and methodologies.

Auditors should adhere to consensus standards and audit criteria where possible, recognizing that some will be specific to particular risks (e.g., dangerous capabilities in a foundation model) and/or particular deployment contexts (e.g., discriminatory impact in hiring). Much work is required to create those standards – which NIST and others are undertaking. Audits and other evaluations are being rolled out now concurrently with the development of technical standards. Especially where evaluators are not yet relying on consensus standards, it is important that they show their work so that they too are subject to evaluation. Auditors should disclose methodological choices and auditor independence criteria, with the goal of standardizing such methods and criteria as appropriate. The goals of safeguarding sensitive information and ensuring auditor independence and appropriate expertise may militate towards a certification process for qualified auditors.

AI audits should, at a minimum, be able to evaluate claims made about an AI system's fitness for purpose, performance, processes, and controls.

*Formal Enrollment and Oversight Framework.* This bill establishes a formal enrollment and oversight framework for independent AI auditors in California, through GovOps. This bill requires, beginning January 1, 2027, AI auditors (defined as third-party entities that assess AI systems or models) to enroll with GovOps, pay an enrollment fee, and submit specified information including their contact details, certifications, and standard operating procedures. GovOps will be tasked with maintaining a publicly accessible registry of enrolled auditors, providing a mechanism for reporting misconduct, and sharing reports with other state agencies as needed for enforcement.

This bill also outlines detailed requirements for how these auditors must operate, including abiding by generally accepted industry best practices, providing auditees with standardized reports, maintaining audit records, and observing strict conflict-of-interest and confidentiality safeguards. Additionally, this bill creates the AI Auditors' Enrollment Fund to support its administration, upon appropriation by the Legislature, and establishes rules to protect whistleblowers who report auditor misconduct.

In practice, this means that whenever a statutory mandate calls for a third-party audit of an AI system, those audits would have to be carried out by an AB 1405-enrolled auditor, after January 1, 2027. GovOps would maintain a registry of these qualified auditors and establish a public misconduct reporting system. This bill is intended to serve as the structural backbone for ensuring that AI system audits required by statute are conducted by independent, credible, and properly overseen auditors.

The Senate Judiciary Committee's analysis notes that these audits could become evidence in lawsuits over whether an AI system caused harm, for example in health care or employment discrimination cases. Auditors will need to ensure their work is defensible and carefully documented, or they may be drawn into third-party litigation as expert witnesses or even co-defendants if their audits are challenged as incomplete or inaccurate. The bill's public-reporting and documentation retention requirements could expose auditors to public scrutiny or discovery demands in lawsuits against auditees, increasing the risk that their work will be second-guessed in court.

*Too Soon?* A coalition of opposition, including the California Chamber of Commerce and TechCA, argues that this bill is premature and fundamentally flawed, imposing a mandatory third-party AI auditing regime before

comprehensive standards, qualified auditors, or clear oversight frameworks exist. They warn the bill would create costly, inconsistent, and potentially ineffective audits that could damage trust in both the technology and the auditing process itself, while stifling innovation and creating anti-competitive burdens in a rapidly evolving field. They also object to the bill's vague definitions, lack of meaningful professional requirements, and failure to account for the immaturity of the AI auditing ecosystem, which currently lacks broadly accepted best practices and qualified personnel.

The coalition raises concerns about confidentiality risks, arguing the bill could expose sensitive business information without adequate safeguards, and that its whistleblower provisions duplicate existing robust protections, adding confusion and compliance uncertainty. They believe a more appropriate approach would be to encourage voluntary third-party or self-assessments to build a solid evaluation ecosystem before mandating audits. Prematurely imposing rigid regulatory requirements, they argue, could hamper the transformative potential of AI across critical fields such as medicine, education, and agriculture, without delivering meaningful benefits to public safety or accountability.

Additionally, the Business Software Alliance argues that alternatively to this bill, the legislature should utilize established accountability tools such as risk management programs and impact assessments, which are already familiar in fields like privacy and cybersecurity, as a more effective and flexible way to address AI risks while preserving innovation.

*Amendments to the Bill.* To ensure that this bill's implementation will not impede any statutory requirements for AI audits before January 1, 2027, and to clarify various definitions, the author has agreed to the following amendments:

Amendment #1.

11549.82. (a) By January 1, 2027, the agency shall do all of the following:  
(1) Establish a mechanism on the agency's internet website allowing AI auditors to enroll with the agency pursuant to ~~paragraph (1) of~~ subdivision (a) of Section 11549.83.

Amendment #2.

11549.83. (a) Beginning January 1, 2027, prior to initially conducting a covered audit, an AI auditor shall do all of the following:  
(1) Enroll with the agency using the mechanism established pursuant to paragraph (1) of subdivision (a) of Section 11549.82.

- (2) Pay to the agency the enrollment fee set forth in paragraph (2) of subdivision (a) of Section 11549.82.
- (3) Provide to the agency all of the following information:
- (A) The *legal* name of the auditor.
- (B) All of the following contact information:
- (i) The primary physical address of the auditor, if ~~the auditor has a physical address~~ applicable.
- (ii) The primary internet website of the auditor, if ~~the auditor has an internet website~~ applicable.
- (iii) A telephone number enabling a natural person to communicate with the auditor.
- (iv) An email address enabling a natural person to communicate with the auditor.
- (C) The types of AI systems or models that the auditor is enrolling to audit.
- (D) Any relevant certifications or accreditations *held by the AI auditor*, and the ~~identities~~ *names* of the certifying or accrediting entities.

Amendment #3.

- (F) A standard operating procedure (~~SOP~~) that *does both of the following*:
- (i) ~~describes~~ *Describes* the auditor's ~~procedures~~ *protocols* in sufficient detail to enable a third party to assess whether audits are conducted according to ~~generally accepted~~ *widely recognized* industry ~~best-practices~~ *standards appropriate to the system or model being audited*.
- (ii) Includes documentation substantiating any claims made by the auditor regarding the accuracy, reliability, or validity of its protocols.*

Amendment #4.

- (b) In conducting a covered audit, an enrolled AI auditor shall abide by ~~generally accepted~~ *widely recognized* industry ~~best-practices~~ *standards* appropriate to the system or model being audited.

Amendment #5.

- 11549.84. (a) After conducting a covered audit, an enrolled AI auditor shall provide the auditee with an audit report that contains, but is not limited to, all of the following:
- (1) The scope and objectives of the audit.
- (2) The results of the audit and any documentation necessary to demonstrate the basis of those results.



(3) An explanation of any steps the auditee can take to meet ~~generally accepted~~ widely recognized industry standards appropriate to the system or model being audited.

Amendment #6.

11549.86. (a) Nothing in this chapter shall be construed to impede, delay, or otherwise affect the conduct of any audit required under any other statute or regulation that becomes operative prior to the effective dates of this chapter. (b) This section shall remain in effect only until January 1, 2027, and as of that date is repealed.

**Prior/Related Legislation**

SB 243 (Padilla, 2025) among other things, requires the operator of a companion chatbot platform, as defined, to submit its platform to regular audits by a third party to ensure compliance, as specified. (Pending in the Assembly Privacy and Consumer Protection Committee)

SB 420 (Padilla, 2025) regulates the use of “high-risk ADS.” This includes requirements on developers and deployers to perform impact assessments on their systems. SB 420 establishes the right of individuals to know when an ADS has been used, details about the systems, and an opportunity to appeal ADS decisions, where technically feasible. (Pending in the Assembly Privacy and Consumer Protection Committee)

SB 468 (Becker, 2025) imposes a duty on a business that deploys a high-risk AI system, or high-risk ADS, that processes personal information to protect that information and requires such a deployer to maintain a comprehensive information security program that meets specified requirements. (Held on the Senate Appropriations Committee Suspense File)

SB 813 (McNerney, 2025) would have established a rebuttable presumption that a developer exercised reasonable care in civil actions for harms caused by AI if they are certified by a “multi-stakeholder regulatory organization,” as specified. (Held on the Senate Appropriations Committee Suspense File)

AB 1018 (Bauer-Kahan, 2025) regulates the development and deployment of ADS that are used in “consequential decisions” – those that materially impact an individual's rights, opportunities, or access to critical resources or services – in order to mitigate bias and unreliability in these systems. Developers are required to contract with an independent third-party auditor to assess the developer's

compliance with requirements for performance evaluations. (Pending in the Senate Judiciary Committee)

AB 302 (Ward, Chapter 800, Statutes of 2023) required CDT, in coordination with other interagency bodies, to conduct a comprehensive inventory of all high-risk ADS used by state agencies, as specified.

SB 1047 (Wiener, 2024) would have required developers of powerful AI models and those providing the computing power to train such models to put appropriate safeguards and policies into place to prevent critical harms. This bill would have established a state entity to oversee the development of these models and called for the creation of a consortium to develop a framework for a public cloud computing cluster. (Vetoed by Governor Newsom)

AB 2930 (Bauer-Kahan, 2024) would have regulated the use of ADS in order to prevent “algorithmic discrimination.” This includes requirements on developers and deployers that make and use these tools to make “consequential decisions” to perform impact assessments on ADSs. This bill would have established the right of individuals to know when an ADS is being used, the right to opt out of its use, and an explanation of how it is used. (Died on the Senate Inactive File)

AB 3211 (Wicks, 2024) the California Provenance, Authenticity, and Watermarking Standards (PAWS) Act, would have required generative artificial intelligence (GenAI) providers, among other things, to watermark synthetic content, as specified; requires large online platforms, among other things, to disclose provenance data or label content of unknown origins, as specified; and imposes penalties for non-compliance, as specified. (Died on the Senate Inactive File)

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

**SUPPORT:**

California Institute for Technology & Diversity  
Oakland Privacy  
TechEquity Action  
Transparency Coalition.AI

**OPPOSITION:**

Business Software Alliance  
California Chamber of Commerce

Computer & Communications Industry Association  
TechCA  
TechNet

**ARGUMENTS IN SUPPORT:** In support of the bill, TechEquity Action writes that, “AI audits can provide crucial independent verification that consequential AI systems function as claimed and mitigate the risk of bias and unintended harms. Without this specialized oversight, we risk allowing potentially harmful systems to impact millions of people with insufficient scrutiny or accountability. A clear example of this need can be seen in healthcare and government where automated systems with error rates of over 90% have impacted access to unemployment benefits and health insurance. Independent AI audits may have caught these errors before they resulted in denied claims, fraud accusations and lawsuits.”

Further, “AI auditing is a relatively new field that needs structure and standards to grow. AB 1405 provides a needed framework for AI auditing that would: 1) Create standardized practices for AI auditing, establishing a professional ecosystem of qualified, independent auditors and helping to document and advance industry best practices regarding AI audits. 2) Decrease litigation risks and costs for both companies and consumers by identifying and addressing potential issues early, before they lead to harm requiring legal remedies. 3) Foster greater trust in AI technologies among consumers and businesses alike, driving responsible innovation and adoption of responsible AI. 4) Create a new professional sector of AI auditors to drive accountability, much like financial auditors do, generating high-quality jobs in California and greater trust in these systems.”

**ARGUMENTS IN OPPOSITION:** The coalition of opposition writes that, “[b]y prematurely creating auditing regimes for private-sector AI systems and encourage policymakers to consider more widely used and workable accountability tools, not only for impact assessments but also potentially beyond, we are concerned that AB 1405 will invariably create far more problems than it will solve them at this state: creating inconsistencies in the quality, performance, and completion of the audits, potentially breeding distrust in their results and in the technology, promoting anti-competitive behaviors, and imposing significant, unnecessary, and unjustified excessive costs to conduct audits that will have produce a false sense of security and minimal, if any, benefit at potentially significant cost – both in terms of fiscal costs, but also in terms of the costs associated with prematurely hindering innovation and placing ill-defined burdens on a rapidly evolving field.”

Further, “AB 1405 defines ‘audit’ in a circular, if not empty, fashion, defining a ‘covered audit’ to mean ‘an audit conducted pursuant to any state statute that

requires an audit of an AI system or model by an independent third-party auditor’ – when no such statute exists. We would suggest narrowing the bill’s definition of ‘audit’ to ‘impact assessments’ and make the bill contingent upon the enactment of either AB 1018 or SB 420, but the bill would still remain vastly unworkable.”

And, “[p]utting aside that it fails to define ‘audit’ in any meaningful way, the bill more importantly lacks the comprehensive standards that are required to ensure the development of expertise among an entirely new category of auditing professionals who would be needed to effectively perform the responsibilities of an auditor for this specific, yet nascent technology. Indeed, the bill almost lacks any identifiable standards. Moreover, the State does not have, nor does this bill propose, the development of the necessary framework that would be needed to enable the proper oversight of these professionals, their audits, and their adherence to clear standards.”

**DUAL REFERRAL:** Senate Committee on Judiciary (11-1) and Senate Committee on Governmental Organization