
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 1405 (Bauer-Kahan) - Artificial intelligence: auditors: enrollment

Version: July 9, 2025

Urgency: No

Hearing Date: August 18, 2025

Policy Vote: JUD. 11 - 1, G.O. 11 - 2

Mandate: No

Consultant: Liah Burnley

Bill Summary: AB 1405 requires the Government Operations Agency to create and administer a program that allows an artificial intelligence auditor to enroll with the agency and allows a member of the public to report misconduct by an AI auditor.

Fiscal Impact: Government Operations Agency (GovOps) reports a significant fiscal impact (General Fund, AI Auditors Enrollment Fund) ranging from \$5 million to \$10 million annually. Specifically GovOps reports that its estimated costs depend on platform complexity, startup and recurring costs; platform development: build public enrollment and reporting system; staffing: program administration, IT development, data management; maintenance & oversight: manage complaints, compliance, enforcement coordination; and, fund management.

Background: 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."

A coalition of opposition, including the California Chamber of Commerce and TechCA, argue 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.

According to the California Board of Accountancy, this bill "will likely create inconsistencies in who can perform the audits, how the audits are completed, and significant differences and costs associated with the audit report. This could lead to the potential of overlapping regulatory responsibilities in the oversight of the individuals performing the audits. Coordinating the responsibilities might become necessary, leading to the potential of more costs associated with the implementation. These outcomes appear to be contradictory to the goals of the bill."

Proposed Law:

- Defines all of the following:
 - “Agency” as the Government Operations Agency;
 - “Artificial intelligence” or “AI” as 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;
 - “Artificial intelligence auditor” or “AI auditor” as a person, partnership, or corporation that assesses an AI system or model on behalf of a third party; and,
 - “Covered audit” as an audit conducted pursuant to any state statute that requires an audit of an AI system or model by an independent third party auditor.
- Establishes the AI Auditors’ Enrollment Fund is hereby within the State Treasury. The fund shall be administered by the Government Operations Agency. All moneys collected or received by the agency pursuant to these provisions shall be deposited into the AI Auditors’ Enrollment Fund to be available for expenditure by the agency, upon appropriation by the Legislature, to administer these provisions.
- Requires, by January 1, 2027, the agency to do all of the following:
 - Establish a mechanism on the agency’s website allowing AI auditors to enroll with the agency;
 - Fix enrollment fees at an amount not exceeding the reasonable administrative costs;
 - Establish a mechanism on the agency’s website allowing natural persons to report misconduct by an enrolled AI auditor;
 - Publish any information provided by an enrolled AI auditor in a publicly accessible format on the agency’s website;
 - Retain reports for as long as the enrolled AI auditor remains enrolled, plus 10 years; and,
 - Share reports with other state agencies as necessary for enforcement purposes.
- Requires, beginning January 1, 2027, prior to initially conducting a covered audit, an AI auditor to do all of the following:
 - Enroll with the agency;
 - Pay the agency the enrollment fee;

- Provide to the agency all of the following information:
 - The legal name of the auditor;
 - The primary physical address of the auditor;
 - The primary website of the auditor;
 - A telephone number enabling a natural person to communicate with the auditor;
 - An email address enabling a natural person to communicate with the auditor;
 - The types of AI systems or models that the auditor is enrolling to audit;
 - Any relevant certifications or accreditations held by the AI auditor, and the names of the certifying or accrediting entities;
 - A written description of the auditor and the services they provide, not to exceed 200 words in length; and,
 - A standard operating procedure that describes the auditor's protocols and documentation substantiating any claims made by the AI auditor regarding the accuracy, reliability, or validity of its protocols.
- Provides that, in conducting an audit, an enrolled AI auditor shall abide by widely recognized industry standards appropriate to the system or model being audited.
- Provides that, after conducting an audit, an enrolled AI auditor shall provide the auditee with an audit report that contains, but is not limited to, all of the following:
 - The scope and objectives of the audit;
 - The results of the audit and any documentation necessary to demonstrate the basis of those results;
 - An explanation of any steps the auditee can take to meet widely recognized industry standards appropriate to the system or model being audited;
 - An explanation of any steps the auditee can take to become compliant with state law; and,
 - A statement that is signed and dated by each auditor that certifies that the audit was completed.
- States that an AI auditor shall not knowingly make a material misrepresentation in an audit report.
- Requires an AI auditor to retain any documentation that is provided to an auditee or that is necessary to demonstrate the basis of the result of a covered audit, for at least 10 years.

- Prohibits an AI auditor from conducting an audit if it has a financial interest in the auditee other than financial compensation for performing an audit.
- Provides that an AI auditor shall not accept employment with an auditee within 12 months of completing an audit of the auditee.
- Provides that an enrolled AI auditor shall not conduct an audit if the auditee had employed the auditor during the 12-month period preceding the audit.
- States that an AI auditor may disclose confidential information concerning an auditee only if the auditee provides written authorization or if the disclosure is any of the following:
 - Made in compliance with a subpoena or a summons enforceable by order of a court;
 - Reasonably necessary to maintain or defend the auditor in a legal proceeding initiated by the auditee;
 - Made in response to an official inquiry from a federal or state government regulatory agency;
 - Made to another 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;
 - Made to an AI auditor to the extent necessary for purposes of professional consultation;
 - Made to organizations that provide professional standards review and ethics or quality control peer review; or,
 - Specifically permitted by state or federal law.
- Provides that an AI auditor shall not do either of the following:
 - Prevent an employee from disclosing information to the Attorney General or the Labor Commissioner, 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 these provisions; or,
 - Retaliate against an employee for disclosing information.

Related Legislation: AB 1018 (Bauer-Kahan), among other things, requires the developer of a qualifying automated decision system to contract with an independent, third party auditor to conduct an assessment. AB 1018 is pending in this Committee.